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Committee on Co-operation in Mysore

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FROM

Rajadharmapravina Diwan Bahadur
K. S. CHANDRASEKHARA AIYAR, B.A., B.L.,
Chairman, Committee on Co-operation
in Mysore, Bangalore.

To

The Secretary to the Government of
His Highness the Maharaja of Mysore,
General Departments,
Bangalore.

SIR,

I have the honour to submit for the information of Government the Report of the Committee appointed under their Order No. D. 2763-2833—C. S. 8-35-5, dated 29th October 1935.

I have the honour to be,
Sir,
Your most obedient servant,
K. S. CHANDRASEKHARA AIYAR,
Chairman.

The total cost on account of the Committee (exclusive of printing charges) is estimated to be about Rs. 8,800, made up of—salary of Secretary (Rs. 3,500) and of establishment (Rs. 1,150), travelling charges (Rs. 3,850) and contingencies (Rs. 300).

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ದಿನಾಂಕ Date.....

COMMITTEE ON CO-OPERATION IN MYSORE.

(*Constituted under Government Order No. D. 2763-2833—C. S. 8-35-5, dated 29th October 1935.*)

Rajadharmapravina Diwan Bahadur K. S. CHANDRASEKHARA AIYAR, B.A., B.L., Retired Chief Judge of Mysore. — *Chairman.*

MR. A. V. RAMANATHAN, B.A., Chief Secretary to Government.

MR. M. G. MEHKRI, B.A., LL.B., Registrar of Co-operative Societies in Mysore.

Rajasevasakta R. RANGA RAO, B.A., B.L., Retired Chief Secretary to Government.

MR. K. CHENGALARAYA REDDY, B.A., B.L., Member, Legislative Council, and President, District Board, Kolar.

MR. A. KRISHNA RAO, B.A., B.L., Advocate, Mysore.

MR. E. N. NATESAN, B.A., Survey of India, Bangalore.

MR. J. M. IMAM, B.A., B.L., Advocate, Jagalur.

MR. N. SESHA SASTRI, B.A., B.L., Advocate, Shimoga.

Rao Sahib C. S. R. RAO, Representative of the *Statesman*, Bangalore.

— *Members.*

MR. N. MADHAVA RAO, B.A., Assistant Secretary to Government, Public Offices, Bangalore. — *Secretary.*

Terms of Reference.

"The enquiry entrusted to the Committee will embrace the present state of the co-operative movement in its various forms with reference not only to co-operative credit, but also to co-operative production, distribution and sale, as well as to house-building, insurance and other relatively less developed sides of co-operative activity. It will further comprise an investigation of the financial system generally, including the connection between the various parts of the co-operative organization and an examination of the working and future development of the Land Mortgage Bank; also the promotion of efficiency and convenience in such matters as propaganda, supervision, control and management of institutions and the disposal of co-operative disputes. The Committee will be at liberty to deal with any other aspects of the movement which may seem to them to be of fundamental importance."

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INTRODUCTION.

CHAPTER I.

General Survey.

1. *Policy and Aims of Movement.*

The co-operative movement in India had its origin in the necessity to strengthen the economic condition of the rural population. A sound system of rural credit, which could provide the necessary capital on easy terms both for financing the current needs of the agriculturist and for wiping out the accumulated burden of agrarian indebtedness, was a vital necessity. The aim, in particular, was to devise some means whereby cultivators might obtain, without paying usurious rates of interest, and without being given undue facilities for incurring debt, the advances necessary for carrying on their business. The means sought for was discovered in Co-operation. It provides a method which aims at the utilization of the combined credit of individuals by the aid of their intimate knowledge of one another's needs and capacities.

As credit was and is still the most pressing need of the bulk of the people, the movement began with arrangements for providing it. But the problems of rural credit are not to be solved at a stroke by the provision of cheap and abundant credit. Credit is not an end in itself, but a means. Its object must be productive, whether by the creation of new values, or the economy of labour and capacity, or the reduction of waste, or even the increased capacity gained through freedom from accumulated burdens.

Co-operation has many other applications besides credit. It is a potent instrument for agricultural and industrial progress, especially with proper organization and scientific and technical assistance and advice. It opens up avenues to further and practically unlimited employment of capital, intelligence and enterprise. The best part of its influence, moreover, is in the social sphere. It is also highly educative in its effects. Thus it inculcates thrift, promotes saving habits and the spirit of self-help and corporate responsibility, and teaches the utility of

associated action for the attainment of common needs. "The combination of the material with the more or less intangible moral element constitutes an important difference between Co-operation and other remedies adopted for dealing with agricultural stagnation."

The business of co-operative credit is recognized on all hands as admirable training for other forms of co-operation. It is the lack of such training and the absence of a knowledge of the principles of co-operation and of the essentials of rural credit that are the root cause of the unsuccessful working of so many Societies to-day. Over and above all these advantages, co-operation affords endless opportunities and facilities for unselfish service for popular uplift. On the whole, therefore, co-operation, though it began mainly as an economic movement, has now become a very important factor in material progress and well-being.

At the same time, that which was originally a movement initiated, and still to a large extent controlled, by official agency, cannot always remain in a state of nonage. The essence of the co-operative movement is that the people should take the management of their own affairs into their own hands, and not be dependent on outside help either for finance or for management. And the main object of those charged with the education and training of co-operative workers is to teach the people how to become capable of assuming complete control of their own Societies.

2. *Co-operative Legislation in Mysore.*

Regulation III of 1905.

The co-operative movement in the State dates from 1905, when the Mysore Co-operative Societies' Regulation was passed to meet an actual demand. The Weavers of Dodballapur desired to form a co-operative Society on the suggestion of the then Inspector-General of Education. At the same time a representation was received from a provisional Committee of gentlemen in the Bangalore City, who wished to form a society with limited liability to be called "The Bangalore City Co-operative Society."

The petition of this Committee stated that the objects of the Society would be —

"(1) to encourage habits of thrift and providence among its members;

(2) to provide loans for its members for the development of their business or the needs of their household;

(3) to purchase for the common account food-stuffs and other requisites, and to arrange for their retail sale to members;

(4) to advance out of the funds of the Society, when practicable, money that may be needed by a member to purchase a house on the mortgage of that property and to receive in convenient instalments the money so advanced with interest."

It prayed that "in order to enable the members to formally register themselves as a corporate body, and to empower the Society to frame by-laws binding on its members, and, generally, in order to extend to this and to similar bodies which may hereafter be formed the same privileges and control as are available in British India under the recently passed Co-operative Credit Societies Act, X of 1904, a law on similar lines may be passed at an early date for the Mysore State also."

The Mysore Regulation of 1905, though based on the Indian Act of 1904, made certain important departures, "calculated to ensure greater simplicity in its application to the limited extent and needs of this State." These departures are thus explained in the Statement of Objects and Reasons:—

"The Indian Act divides Societies into rural and urban, which are treated differently in regard to constitution, extent of the liability of members, disposal of profits, lending of money on the security of movable property, and so forth; nevertheless, in several of these respects provision is retained for a general or special exemption or modification. Again, while the Societies chiefly contemplated are those intended to promote agricultural credit, and in the next place those aiming at the promotion of industrial credit, power is conferred on Local Governments to permit any other kind of association to be registered under the Act, subject to such conditions and such modifications of the law as they think fit.

"In the Regulation proposed for Mysore, the various objects for which Co-operative Societies (of which Co-operative *Credit* Societies are merely one class) can be formed are enumerated in detail; and where objects other than those specified are found calculated to promote the common economic benefit of the members, the Government is empowered to recognise such objects also, as in Mysore the same authority which virtually makes the law frames the subsidiary rules also. The conditions obtaining in Mysore do not make it necessary to accentuate the distinction between rural and urban Societies, and the fundamental distinctions which are made in the Imperial Act are not necessary here."

In view of the general applicability of the Regulation to all types of Societies, it was entitled the Mysore Co-operative Societies Regulation, and not Co-operative *Credit* Societies Regulation.

It may be noted in passing that modifications on similar lines were adopted in British India when the Act of 1904 was replaced by the Act of 1912.

Subsequent experience in the working of the Mysore Regulation revealed the existence of certain defects; and

Regulation VII of 1918.

in the light of such experience as well as of that gained in British India, it was found necessary to improve the provisions of the law in several directions to meet the altered requirements and ensure the sound progress of the movement in future. The Co-operative Societies Regulation of 1905 was therefore replaced by Regulation VII of 1918, which incorporated the new provisions indicated in the following extract :—

"(1) The Co-operative Societies Regulation, III of 1905, does not explicitly provide for the registration of co-operative Societies of which other co-operative Societies are members. In actual practice such Societies have been registered. But as Unions and Central Banks play an important part in the organization and development of Co-operation, this omission has been supplied.

"(2) Provision is made for appointing Assistant Registrars and investing persons other than the Registrar with the powers of a Registrar of Co-operative Societies under the Regulation.

"(3) Power is given to the Registrar to conduct an audit or enquiry by deputy.

"(4) The liability of a Society having Societies as members shall (it is declared) be limited.

"(5) Creditors of co-operative Societies have been given the power under proper restrictions of asking the Registrar for an inspection of the books and affairs of the indebted Societies.

"(6) The present period of one year for which the liability of a past member continues being found too short, it is proposed to raise it to two years.

"(7) Power is given to Societies to sanction out of their profits contributions to charitable purposes."

In 1920, the Government appointed a Committee to review the progress made by the co-operative movement in the State. This Committee submitted its report in 1923. One important step taken on its recommendation was the inauguration of the land mortgage branch of the co-operative movement.

Regulation V of 1929.

In 1929, the Co-operative Societies Regulation, VII of 1918, was amended with a view to providing for the organisation of a land mortgage Bank under the Regulation, and for the following among other matters :—

"(1) Power is reserved to Government to appoint a Registrar for any particular class of co-operative Societies, if they should find it necessary to do so.

"(2) Power is reserved to Government to appoint their nominees to the committee of management and the board of supervision of the Bank when Government give financial assistance to the Bank.

"(3) It is provided that debenture bonds shall be issued only with the previous sanction of Government, and that they shall be negotiable instruments and included among the securities in which trust funds may be invested.

"(4) The purposes for which the Bank may grant loans, and the circumstances under which a loan may be recalled by the Bank, are specified."

Regulation VI of 1933.

As the result of the experience of fourteen years in the working of the Regulation of 1918, and in order to provide for certain new matters arising from the development of co-operative Banks formed for financing primary Societies, the Regulation was further amended in 1933. The main features of the amendments are as follows: —

"(1) The introduction of a new definition of a financing Bank in order to enable registered Societies, the main object of which is to lend money to other registered Societies, to exercise certain powers in the matter of the smooth work of Societies in which the financing Bank is interested.

"(2) Plurality of votes and voting by proxy, which were in vogue heretofore in certain Societies, are now prohibited, by laying down the principle of one man one vote.

"(3) Audit, enquiry and inspection being separate matters, independent and complete provisions are made in regard to each.

"(4) The powers of the Registrar in the matter of disposal of suits are increased, as also in the matter of exercise of revisional powers.

"(5) The powers of land mortgage Banks in the matter of advancing loans are increased.

"(6) Certain acts of commission and omission are declared offences and provision made for their punishment."

Regulation I of 1935.

The law has since been further amended in 1935 with reference to the working of the provisions incorporated in 1929 in regard to the Land Mortgage Bank. The main changes introduced are indicated below :—

"(1) In the case of default in the payment of instalments due, the Registrar is empowered, on the application of the Mortgage Bank, to distrain the produce of the mortgaged land, including the crops standing thereon, under appropriate safeguards and to bring them to sale.

"(2) Where the mortgaged property is wholly or partially destroyed or the security is rendered insufficient, the Bank has the right to demand further security or to proceed to distrain and sell the produce of the mortgaged land.

"(3) Where a primary Bank fails to take action against a defaulter, the Board of the Central Mortgage Bank or the Registrar is empowered to take the necessary action.

"(4) The Regulation prevents the mortgagor from leasing the mortgaged property for a period longer than five years.

"(5) Provision is made for safeguarding the interests of mortgage Banks by preventing mortgages executed in favour of the Bank from being called in question in insolvency proceedings, and by securing priority to a mortgage debt in favour of a mortgage Bank over any claim of the Government arising from a loan under the Land Improvement Loans Regulation granted after the execution of the mortgage.

"(6) The mortgage Bank is given the right to require a prior creditor of the mortgagor to receive payment; in case of refusal interest will cease to run.

"(7) Registration of documents executed on behalf of a mortgage Bank is permitted without the appearance in person of any officer of the Bank before the Sub-Registrar.

"(8) The burden of proving that a mortgage executed by the manager of a joint Hindu family is not binding on the members thereof is made to lie on the party raising such a plea.

"(9) Sections 52, 53 and 54 of the Mysore Co-operative Societies Regulation, as they stood, made it obligatory on the part of the Government to sanction the by-laws of primary land mortgage Societies and the amendments that might be passed from time to time. Under the amending Regulation, this requirement of Government sanction is made applicable only to the Central Land Mortgage Bank."

3. *Progress of Movement.*

Progress since 1905-06

The general progress of Co-operation in the Mysore State since 1905-06 is indicated in the following statement:—

Year	Number of Societies of all kinds	Individual Members	Central Financing Institutions	Total Working Capital	Actual Working Capital excluding investments in other Societies	Reserve Fund
1905-06	5	362	...	14,213	14,213	...
1906-07	15	1,191	...	28,085	28,085	167
1907-08	27	2,521	...	61,126	61,126	924
1908-09	45	4,551	1	1,35,499	1,35,498	2,340
1909-10	70	6,301	1	2,16,261	2,08,519	5,831
1910-11	111	9,013	1	3,71,194	3,37,338	9,549
1911-12	208	13,148	2	6,75,312	6,25,645	18,833
1912-13	313	21,538	4	12,89,338	11,20,872	30,600
1913-14	530	45,179	5	21,47,340	18,50,391	56,239
1914-15	725	56,267	6	30,85,747	25,66,812	96,669
1915 16	800	64,857	18	41,21,688	35,64,234	1,59,626
1916-17	974	74,906	18	57,64,024	48,82,101	2,31,740
1917-18	1,097	81,168	19	65,04,632	52,02,432	3,30,539
1918-19	1,233	81,425	19	79,98,327	56,47,157	4,39,087
1919-20	1,402	92,679	18	78,00,100	64,76,120	5,79,435
1920-21	1,500	92,121	19	78,19,503	65,83,082	6,93,407
1921-22	1,522	96,912	19	81,97,280	69,31,714	8,49,532
1922-23	1,541	95,315	19	84,09,478	72,18,926	10,16,357
1923-24	1,487	92,203	18	87,44,945	75,76,800	11,84,902
1924-25	1,474	91,602	18	92,21,614	81,58,002	12,95,652
1925-26	1,603	95,292	17	98,65,731	87,88,588	15,74,852
1926-27	1,748	98,933	17	1,12,38,937	97,40,368	17,56,803
1927-28	1,866	1,07,223	17	1,31,00,000	1,12,72,612	19,12,000
1928-29	1,962	1,16,586	16	1,52,37,208	1,32,32,680	19,93,250
1929-30	2,102	1,26,491	16	1,69,24,766	1,41,51,051	21,32,744
1930-31	2,213	1,37,615	16	1,89,32,429	1,57,23,565	22,78,352
1931-32	2,181	1,42,715	14	2,03,77,661	1,67,98,916	24,50,164
1932-33	2,180	1,44,481	14	2,23,09,565	1,83,84,642	25,40,458
1933-34	2,088	1,46,557	13	2,17,60,461	1,81,59,416	27,74,208
1934-35	1,998	1,44,898	12	2,31,05,200	1,96,23,954	29,73,615

The above figures point to a steady and even rapid growth during the past thirty years.

Prior to 1921-22.

It will be convenient here to make a brief reference to the progress of the movement before 1921-22 and to note the position as at the end of that year.

The first purely co-operative institution to be organized in the State was the Bangalore City Co-operative Society (referred to in Section 2 *supra*), which was registered on the 8th December 1905. This was followed up by the registration of four more Societies, all with limited liability. It was not until two years later that the Molakalmuru Krishika Sahaya Sangha ventured to adopt the unlimited liability basis, being the first co-operative Society to do so. But from that year onwards an increasingly large number of such Societies were organized. The objects sought to be achieved through co-operation were in the beginning of a varied nature, and Societies started for agricultural, industrial, and distributive purposes formed a major portion of the total number.

The constitution of a Central financing Society was soon felt to be a necessity, and the Bangalore Central Co-operative Bank was organized as a financing institution, and it began to issue loans to Societies in 1909-10. In the same year the Bangalore City Building Co-operative Society was registered and commenced operations, being the first institution of its kind in the State.

Progress up to 1910-11 had been slow, but in the course of the next five years there was rapid development. From 111 Societies with a membership of 9,043 and a working capital of Rs. 3·71 lakhs at the end of 1910-11, the number of Societies rose to 800, the membership to 64,857 and the working capital to Rs. 44·21 lakhs, during 1915-16.

This rapid increase, mainly in the number of rural credit Societies, brought the question of their adequate financing and supervision to the fore. An institution called the Union was brought into existence in 1912-13 to serve as a permanent link between the individual Societies on one hand and the Central Banks on the other. The Unions were entrusted with both financing and supervisory powers over the affiliated Societies. A large number of them were registered during 1913-14.

As early as 1913-14, the Government remarked that the development of the movement was confined mainly to the provision of credit facilities, and that it was necessary to develop co-operation for trade and simple industries. It was also observed that the progress of the movement had not been uniform in all the Districts, and that it had not

made much headway in certain Districts, *viz.*, Mysore, Shimoga and Chitaldrug. Between the years 1915 and 1922, the Department paid special attention to the development of non-credit co-operation.

With the rapid growth in the number of Societies it was found that the Departmental staff was inadequate to cope with the increased volume of work involved. There was accordingly a re-organization of the Department in 1916-17, as a result of which the number of Inspectors and Honorary Supervisors was increased. The hope was at the same time entertained that, with the development of the Union system, the Department would be relieved of its supervisory functions entirely and left with only the work of audit.

The Mysore Provincial Co-operative Bank was organized in November 1915 with the object not only of financing primary Societies and supervising their working, but also of making satisfactory arrangements for co-operative propaganda in the State.

During the succeeding years the effects of the War, and the resulting tightness of the money market and the abnormal rise in the prices of food-stuffs, began to make themselves felt, and to these were added the consequences of a continued prevalence of adverse seasonal conditions in the Maidan Districts. The activities of the Department in the years immediately preceding the appointment of the Samaldas Committee were therefore concentrated on the work of consolidation and rectification of existing Societies.

Position at close of 1921-22.

At the close of the year 1921-22 when the Samaldas Committee had concluded its labours, the position of the movement in the State was as follows. There were 1,522 Societies with a membership of 96,912 and a working capital of Rs. 82 lakhs. The total turnover was slightly more than Rs. 2¾ crores. The Societies earned a net profit of about Rs. 4 lakhs during that year, and had by then accumulated a Reserve Fund of Rs. 8½ lakhs. Of the total number of Societies, 1,321 were of the credit type, 1,170 being agricultural credit Societies. The number of non-credit Societies stood at 141, of which 72 were for the supply of seeds, manure and agricultural implements; and 43 were Weavers' Societies. The remaining 26 were Societies for various industrial purposes.

Subsequent to 1921-22.

The following is a brief account of the movement subsequent to the Samaldas Committee's enquiry in 1921-22.

The consolidation work undertaken by the Department in 1916-17 was continued during the next few years, in view of the unfavourable conditions of the money market and the continuance of adverse seasonal conditions, as well as in pursuance of the recommendation of the Samaldas Committee for the elimination of skeleton Societies. In 1922-23 the financial condition of the Provincial Bank caused considerable anxiety, and in the next year the bad seasonal conditions hampered considerably the working of primary Societies. The Department took steps to tide over these situations, in the first case by securing to the Provincial Bank a deposit of the State loan bonds of Societies to the extent of Rs. 50,000, and in the second by getting the Provincial Bank to afford adequate and timely financial assistance to the primary Societies.

Government passed orders on the Samaldas Committee's Report on 30th March 1925. Among the improvements following upon the acceptance of the Committee's recommendations was the increased attention paid to the development of non-credit activities, and to the more rapid spread of the movement in the relatively backward areas. Government also appointed a Special Officer to conduct an economic survey of typical places in the Malnad. An upshot of all this was the organisation towards the close of 1929 of the Mysore Land Mortgage Bank on co-operative lines as the most hopeful means of removing the indebtedness of agriculturists, particularly in the Malnad tracts.

Other important results of the Committee's labours were the reconstitution of the Mysore Provincial Bank as the Apex Bank for the State, and the establishment of the Co-operative Institute for propaganda work.

Government also rendered direct financial assistance to the movement by the grant of advances to the Apex Bank for the developments of agricultural co-operation and for house-building purposes. House-building Societies were organized at Nanjangud, Shimoga, T.-Narsipur and Ramanathapur, and were financed by Government by means of special loans for long periods with a view to relieve the distress caused by the heavy floods during 1924. A sum of Rs. 2,000 was placed at the disposal of the Registrar of Co-operative Societies in connection with the scheme for the amelioration of the condition of the depressed classes.

The movement began to gain considerable strength from the year 1925-26 onwards, the work of consolidation

having been completed. The Propagandist Institute, strengthened by the addition of an influential non-official element, began to function actively. During 1928-29 a fresh impetus to agricultural co-operation was given by a large number of ordinary credit Societies undertaking, in addition, the work of purchase and distribution of improved agricultural implements, seeds and manure.

Position at close of 1929-30.

The position at the close of year 1929-30 may be shortly indicated. There were 2,102 Societies of all kinds with a total membership of 1,26,491. The total working capital stood at Rs. 169 lakhs. The number of Central Institutions was 16, including five District Central Banks and nine Federal Banking Unions. The working of all but one of the District Banks and of all the Unions was considered to be not satisfactory. Of the total number of Societies, 1,685 were agricultural, and of these again 1,490 were credit institutions. The number of non-credit Societies was 245, out of which 29 were House-building Societies, 73 were Stores, 22 Sericultural Societies and 71 Weavers' Societies.

The outstanding event of the year was the establishment of the Land Mortgage Bank on 1st December 1929.

The effects of the economic depression and the phenomenal fall in prices began to manifest themselves in 1929-30, and have continued to hamper progress in all directions since then. The Department had to resume the policy of consolidation and rectification, which is being carried on vigorously at present.

4. Present position.

The subjoined statement indicates the position of the movement at the close of the year 1934-35 :—

	Number of Societies	Membership	Share Capital	Reserve fund
			Rs.	Rs.
A. Primary Societies—				
(i) Agricultural ...	1,527	64,165	11,29,068	11,80,577
(ii) Non-Agricultural ...	440	75,883	33,53,940	13,96,170
B. Central Institutions ...	11	2,598	5,76,035	3,91,202
C. Land Mortgage Institutions—				
(i) Land Mortgage Banks.	1	229	55,269	3,825
(ii) Primary Societies ...	19	2,023	49,823	1,841
Total ...	1,998	1,44,898	51,64,135	29,73,615

	Deposits	Loans from Central Banks and Government	Miscellaneous	Total Working Capital
	Rs.	Rs.	Rs.	Rs.
A. Primary Societies—				
(i) Agricultural ...	5,19,069	21,00,353	4,20,713	53,49,780
(ii) Non-Agricultural ...	50,67,950	4,10,008	6,72,488	1,09,00,556
B. Central Institutions ...	49,93,697	38,501	1,79,318	61,78,753
C. Land Mortgage Institutions—				
(i) Land Mortgage Banks.	2,83,200	25,300	2,179	3,69,773
(ii) Primary Societies ...	10	2,19,881	4,783	3,06,338
Total ...	1,08,63,926	28,24,043	12,79,481	2,31,05,200

On the 30th June 1935 there were 1,998 co-operative Societies of all kinds, of which 12 were Central Institutions inclusive of the Land Mortgage Bank; and 1,545 were agricultural, and 440 non-agricultural, primary Societies. The total number of credit Societies (both central and primary) was 1,746. Of these 1,545 or 88·5 per cent were agricultural credit Societies. The distribution of the 252 non-credit Societies is as follows:—

Stores Societies	84
Agricultural Supply Societies	27
Agricultural Sale Societies	7
Weavers' Societies	66
Grain Banks	42
Sericultural Societies	20
Others	6

The number of House-building Societies was 25, and that of Societies constituted for the benefit of women exclusively was 12. There were in all 227 Adikarnataka Societies, of which 208 were credit Societies and 16 were Weavers' Societies. Including 10 land mortgage Societies, there were 357 Societies working in the Malnad parts of the State, the largest number being in the Shimoga District. The land mortgage scheme was in operation in 25 Taluks, with one Central Bank and 19 primary Societies. There has been a slight decline in the number of Societies since 1929-30, mostly under credit institutions. As many as 222 Societies had their registration cancelled during the years 1933-34 and 1934-35.

The membership of Societies, which had been steadily increasing year after year since the inception of the movement, showed a falling off during 1934-35. This is reported to be confined entirely to agricultural Societies, and to be due to the removal of persistent share and loan defaulters. The average membership in rural and urban Societies was 43 and 172, respectively.

Under working capital the large proportion constituted by deposits is noticeable, particularly in Central institutions. On the other hand, deposits form only 9 per cent of the total working capital of rural Societies, which depend mostly on loans from Central institutions and on their share capital and reserve funds for the finance they need in their business. The share capital of all institutions forms nearly 23 per cent of the total working capital. The very small amount under loans from Government is also a noteworthy feature. The movement has up to now accumulated nearly Rs. 30 lakhs in the way of reserve; this will, doubtless, under statutory requirements, continue to grow and will form the best guarantee available to outside investors. The turnover however is not as rapid as it should be, being only about three times the total working capital. The fall in net profits during 1934-35 is reported to be only apparent, and as being due to the altered mode of calculating profits adopted during the year. The average working capital of agricultural and non-agricultural Societies per member was Rs. 85 and Rs. 144, respectively. The percentage of owned capital to total working capital in primary Societies was 49. The reserve fund now forms 57·6 per cent of the paid-up share capital, and 37·5 per cent of it is being utilized by Societies in their own transactions.

There has been a severe contraction in the grant of loans by rural credit Societies, the fall being from Rs. 20·86 lakhs in 1929-30 to Rs. 8·63 lakhs during 1934-1935. On the other hand, the loans issued by urban credit Societies show a substantial increase from Rs. 58·08 lakhs in 1929-30 to Rs. 81·66 lakhs at the end of 1934-35. Non-credit Societies issued a slightly larger amount by way of loans during 1934-35 than before the depression set in. An improvement is noticeable in the collection of overdues during 1934-35 as compared with the year previous. The percentage of overdues to demand stood at 65 in Central and 33 in primary institutions; and is heavier in the agricultural than in the non-agricultural Societies.

As regards purposes also, the proportion of loans granted for productive as compared with unproductive expenditure has been on the increase.

In spite of the adverse conditions, the net profits amounted in 1934-35 to 1·2 per cent of the total working capital and 7·2 per cent of the paid-up share capital.

The number of co-operative disputes has increased from 3,599 in 1933-34 to 4,260 in 1934-35. The number pending decision at the end of 1934-35 was 2,109. The number of decisions pending execution at the close of 1934-35 was 6,608, involving a total sum of Rs. 9,51,711. The corresponding figure, according to the statistics of the Revenue Department, is 3,451, involving a sum of Rs. 6,61,052. Allowing for a small percentage of executions through Civil Courts, there is a large divergence between the two sets of figures which requires to be reconciled.

While co-operation has firmly established itself, and assumed fairly large proportions, it has of course still much headway to make. If we take into account the total area of the State, namely, 29,326 square miles, and the aggregate rural population of 5,512,260 living in 16,483 villages, there is at present only one agricultural Society for every ten villages, 18 square miles, and 3,605 persons. Taking the total membership, both rural and urban, and making the usual assumption that a family consists of five members on the average, it appears that so far 7¼ lakhs of persons out of the entire population of over 6½ millions have come within the influence of co-operation. This gives a percentage of 11·1 to total population, as compared with the percentages for other parts of India given below :—

9·5 for Madras, 3·5 for the Central Provinces, 3·6 for Bihar and Orissa, 9 for Baroda and 22 for Travancore.

The marginal figures show the growth in the number of agricultural credit Societies according to Districts. The uneven progress is apparently due to differences in the physical and economic conditions of the Districts. The Malnad is still backward from the co-operative point of view, as is also the dry, cotton growing District of Chitaldrug.

District	Number of Societies at the end of		
	1914-15	1924-25	1934-35
Bangalore ...	136	283	451
Hassan ...	94	192	193
Mysore ...	97	207	329
Kadur ...	32	111	131
Kolar ...	72	146	222
Chitaldrug ...	64	122	160
Tumkur ..	134	225	265
Shimoga ...	32	188	247

The predominance of agricultural credit Societies is not peculiar to Mysore. It merely gives expression to the original intention and policy behind the movement, which was primarily to help and strengthen the basic industry of the country through increased facilities for credit and to lighten the burden of rural indebtedness.

At the same time, co-operation has extended itself vigorously to urban areas, and is being successfully applied for the benefit of the dwellers in towns. Urban banking has in fact made noteworthy progress; the Banks are very popular, and are materially contributing to encourage habits of thrift and saving among the less well-to-do; and, on the whole, this side of the movement has done well and offers much scope for future development.

The chief achievement of co-operation so far has been the establishment of credit Societies, these being the simplest to form and (comparatively) the easiest to work. Progress in directions other than credit has not been remarkable; there are naturally more difficulties to overcome, as well as less experience to rely upon. Though there are some notable instances of successful co-operative Stores, the consumers' movement as a whole has been retarded by insufficient turnover and the want of good business management and of proper supervision.

On the agricultural side likewise, apart from the creation of new credit facilities, little advance has so far been made in the improvement of the raiyat's economic condition. Undoubtedly there are difficulties in the way, such as the unsettled conditions of prices, the want of efficient staff, and insufficient co-ordination with other Departments. But they cannot be allowed to hamper progress indefinitely. The time has come to break fresh ground in the larger economic interests of the agricultural population. The development of non-credit Societies has to be encouraged, and special efforts made to promote Societies of special types.

The working of the District Central Banks and Federal Banking Unions has not been satisfactory for several years past; and Government have ordered their being wound up. With regard to the Grain Banks too, the policy of the Department is to wind them all up in course of time. Government have also directed the cancellation, or amalgamation with the ordinary credit Societies, of Societies formed for the benefit of the depressed classes, it being considered that there is no necessity for the existence of these as a distinct class. Among industrial

institutions, the condition of Weavers' Societies is reported to be becoming worse in consonance with the fact that weavers in India have been hit hardest by the depression. The Department has under consideration a scheme for the revival of these Societies.

Sericulture is another industry which has suffered greatly, and Sericultural Societies have not shown much economic activity, beyond supplying disease-free seed to their members and hiring out some implements.

To sum up the position: The movement, from the point of view of membership, has made remarkable progress. There was and is now a satisfactory accumulation of owned capital, and especially of an indivisible reserve fund. Considerable funds have been attracted by way of deposits and loans, and utilised to meet the insistent needs of the poorer agricultural and industrial classes; and substantial profits have been earned and distributed. The solvency of the movement has been all along beyond dispute. The confidence of the investing public has been gained and held, and a position of increasing influence is being established in the financial world. Had it not been for the sudden and disastrous change in economic conditions six years ago, it would have been possible to say that the position and prospects of the co-operative movement was on the whole bright and encouraging.

Effect of Depression.

Unfortunately, the general depression which then set in still hovers over the world like a dark cloud. Whether it lifts soon or lingers on, its evil consequences will remain for many years. The unsettled condition of prices has hit all classes alike. The agricultural population has suffered most of all from the heavy and prolonged slump in the prices of agricultural commodities and the phenomenal decline in land values, further aggravated as they have been by a series of bad harvests. The fall in the yield from land has affected simultaneously the repaying capacity and the credit of agriculturists. They either hesitate to contract new loans or are unable to obtain a renewal of credit. The lowered capacity for repayment has discouraged Banks from making fresh advances, and has led to a severe contraction in the issue of new loans by rural Societies. Rural money-lenders are only willing to lend on very onerous terms. On the other hand, indebted members are in many cases not ready or eager to make repayment of their dues to Societies. Recoveries were in consequence considerably slowed

down; and there has been a continuous increase in the volume of overdues.

The fact that, though the demand for credit remains insistent, co-operative Societies and Banks have been compelled to contract their loan transactions, has led, among other things, to a reduction in the turnover and the keeping idle of much surplus money. With the non-realisation of interest, profits have naturally diminished. The Provincial Bank has had to refuse further deposits, and the Land Mortgage Bank to reject a large number of loan applications.

The general increase of litigation, particularly in the number of pending disputes and of infructuous execution proceedings, and the persistence of a disproportionate number of inefficient institutions, are other causes for anxiety. The weeding out of many still-born or moribund Societies has, at the same time, led to a continual decline in the number of Societies.

In these and other ways the working of Societies, and especially of agricultural credit Societies, has suffered greatly from the economic strain. Where so many institutions have been finding it difficult to weather the storm, it is not to be supposed that co-operative institutions alone would be left untouched.

The movement has indeed been passing through a critical period in Mysore in common with other parts of India; and it cannot be expected that progress could well have been quicker than it has been. While quality is always more important than speed, it is especially so in these times of severe depression. Now more than ever progress has to be judged, not by the number of Societies or their membership, or even the range of their activities, but by the general soundness and stability of the organization and its conformity to co-operative principles.

It has therefore been considered everywhere the right policy to consolidate the progress that has been achieved so far, and to defer programmes for further expansion and new lines of development till there should be an appreciable change for the better in the economic situation. Attention has for some time been concentrated in Mysore on efforts to strengthen existing Societies and improve their working and management, on the speeding up of recoveries, the reduction of overdues, and the scrutiny of loans and the sufficiency of the security therefor, and generally on measures for ensuring the financial stability and soundness of primary and central institutions.

This, of course, is the only prudent policy for the abnormal period through which the movement has been passing. But it is not a policy which can create enthusiasm. Nor is it one which can be indefinitely pursued if the movement is to grow and thrive.

As a matter of fact, it is to be feared that the stress laid on caution and consolidation is having the untoward consequence of starving even good Societies and honest members. The danger of stagnation has become real; and the question whether the pace of advance in organization and development cannot now be accelerated is assuming importance.

There is, indeed, much in the present aspect of the movement which requires correction, many points that demand additional attention, and some directions in which a change of system is called for. But the movement itself is sound at the core. The monies invested in it at present are, generally speaking, safe. The fact that in many Banks and Societies deposits have had to be definitely discouraged by lowering the rates of interest, without affecting the volume of existing deposits, or the inflow of fresh ones, is itself a remarkable testimony to the confidence displayed by the investing public. An indirect effect of the economic depression and the consequent fall in the number of Societies and of members, has been the elimination of some unsound elements which tended to hamper rather than assist sound development. In the view that we take of the movement as a whole, the immediate outlook is not by any means discouraging or such as to cause despair to those to whom its welfare is primarily entrusted. Meanwhile, it is quite necessary to complete the process of rectification already undertaken, a process which, though undoubtedly tedious and difficult, cannot be delayed or dispensed with.

The positive defects and abuses in the working of Societies, some of them of a very grave nature, which have come under our notice, would make a long list. They are not of course all of them equally common; some are more prevalent than others, and some affect particular types of Societies. Many of these unsatisfactory features are to be attributed to want of knowledge and experience; some are the unavoidable results of the severe and continuous economic depression. Few of them however are really irremediable, given patient, continuous and firm handling.

The position is not peculiar to Mysore. The years 1928-29 to 1934-35 have been years of anxious questioning

and searching of heart everywhere. Since the classic report submitted by the Maclagan Committee in 1915, almost every province in British India has had to subject the co-operative movement in its area to careful examination.

5. *Committees of Enquiry elsewhere.*

Central Provinces (King) Committee, 1922.

In the Central Provinces a thoroughly unsound system was allowed to develop with a top heavy organization, and a severe financial crisis was precipitated towards 1920, to be staved off only through assistance from the Local Government in the form of a large loan and the guarantee of a substantial cash credit. A Committee of enquiry was appointed in 1921 with Mr. R. M. King as President. One of its main findings was that, if the country was to have adequate banking facilities, there was no alternative to a widespread system of co-operative institutions working in conjunction with commercial Banks. It further recommended that long and short term business should be separated from top to bottom, separate accounts and balance sheets being maintained by all Societies for these different transactions.

United Provinces (Oakden) Committee, 1925.

In the United Provinces, where the condition of a large number of Societies was giving room for anxiety, the Government appointed a Committee in 1925 with Mr. R. Oakden as President. The Committee's conclusion, put shortly, was that a general dissolution of the movement could only be avoided by a drastic reorganization.

Madras (Townsend) Committee, 1928.

Considerable anxiety was caused in Madras by a steady increase in overdue loans, and a Committee (with Mr. C. A. H. Townsend as President) was deputed to enquire into this and other defects, and it published its report in 1928. Among its recommendations the most important was the division of agricultural loans into long and short term loans, co-operative institutions being required strictly to confine themselves to the latter and to leave long term credit to land mortgage Banks. The general view of the Committee was that in many respects the co-operative movement in that Presidency was in an unsatisfactory condition, but that none was fraught with greater potential benefits to the country. It emphasized the need for betterwork generally in all co-operative institutions, as well as the better education of panchayatdars.

Burma (Calvert) Committee, 1929.

The situation in Burma having been found to be critical (with as many as 1,400 primary rural Societies

out of 3,800 under liquidation), the Local Government appointed a Committee in 1928 under the chairmanship of Mr. H. Calvert, to review the position and to make recommendations for the improvement and extension of co-operation in the Province. The Committee found that, while the situation was aggravated by a series of bad harvests in Upper Burma, the failure of Societies was the result in the main of the failure of the Union system, the omission to train an efficient staff to support the Registrar, and the delay in disregistering unsatisfactory Societies. While considering that the Government was justified in persevering in the attempt to create a sound well-controlled system of rural credit, the Committee recommended that a system modelled on that obtaining in the Punjab might be adopted in Burma. The Government of Burma, in generally agreeing with the Committee, stressed the importance of co-operation remaining in essence a popular movement, and not becoming an official concern. Financing agencies, it was observed, must be entirely responsible for loans, deposits and internal working. The Provincial Bank founded in 1911 was ordered to be wound up. The Government agreed with the Committee that crop loans should be regarded as the main business of the primary agricultural credit Societies, though other loans repayable in two, three or four years might also continue to be granted, but with great care.

Travancore (Devadhar) Committee, 1934.

In Travancore the Government appointed a Committee of Enquiry in 1932 with Mr. G. K. Devadhar as President. The Committee's Report, published in 1934, contained various practical suggestions and recommendations for the better working of Societies in that State, as also on agricultural indebtedness and other allied questions.

Royal Agricultural Commission and Central Banking Enquiry Committee.

The co-operative movement in India came under review by the Royal Agricultural Commission, and by the Indian Central Banking Enquiry Committee and its Provincial Committees, in the course of their enquiries. The report of the Royal Agricultural Commission (1928) contained an illuminating survey of the progress of the movement, as to which it made several very valuable observations and suggestions. The movement, it was thought, should continue to be directed to the expansion of the rural credit system, every effort being made to fulfil the standards laid down by the Maclagan Committee. The only remedy for the unsatisfactory condition of the movement in some Provinces was considered to be the

patient and persistent education of the members of co-operative Societies in the principles and meaning of co-operation and the building up of a highly educated, trained official staff without weakening the position of honorary workers. The organization on a large scale of Supervising Unions, whose progress so far had been found to be satisfactory, was favoured. The qualifications desirable for the place of Registrar of Co-operative Societies were detailed, and the ways in which Government should come to the assistance of the movement indicated.

The Indian Central Banking Enquiry Committee and the Provincial Banking Enquiry Committees examined only those aspects of the co-operative movement which had an intimate bearing on the credit needs of the population and the development of banking facilities. The movement was found to be suffering from lack of training on the part of both the official and the non-official staffs; and special steps were recommended for their efficient and adequate training. It was also considered important that official control in certain Provinces should be slackened. The Central Committee affirmed that the time had come to encourage the development of non-credit Societies. The need for an efficient and thorough system of audit, with a view to prevent bad management and embezzlement and to inspire confidence in the investing public, was emphasized. One important conclusion arrived at was that, in the interests both of the movement and of borrowers, ordinary credit Societies should confine themselves to dispensing short and intermediate credit, long term credit being provided with any degree of safety and success only by land mortgage Banks.

6. *Mysore (Samaldas) Co-operative Committee, 1923.*

The co-operative movement in Mysore was subjected to a comprehensive review in 1920-22 by a Committee presided over by Mr. (afterwards Sir) Lalubhai Samaldas. Among the more important recommendations made by the Committee were the following:—

(1) The Registrar may be given the power of imposing a fine on any person summoned to appear before him in connection with the business of a Society, but who fails to appear without satisfactory reasons.

(2) No person should be allowed to be a member of more than one Society of the same kind.

(3) The membership of Societies should not exceed a certain limit, to prevent their becoming unwieldy.

(4) Satisfactory arrangements should be made for the maintenance of adequate fluid resources in Societies in respect of current and fixed deposits.

(5) A band of honorary workers from among the educated non-official classes may be organized, to take up co-operative work. These workers may be styled as Honorary Assistant Registrars and given suitable travelling allowances and entrusted in particular with the work of disposing of co-operative disputes.

(6) A special officer may be appointed to guide and advise Weavers' Co-operative Societies on the technical and commercial sides of the work.

(7) A Board, consisting of the Heads of the Departments of Agriculture, Industries and Commerce and the Registrar of Co-operative Societies and two non-official gentlemen, may be constituted with a view to ensure the success of Industrial Co-operative Societies.

(8) Government should render financial assistance to Co-operative House-building Societies, and should set apart a sum of rupees one lakh for the purpose.

(9) There should be one Provincial institution for financing the co-operative movement in the State, the same being organized in one of the following ways :—

(i) the amalgamation of the Mysore Provincial Co-operative Bank and the Bangalore Central Co-operative Bank, or

(ii) the creation of a new Apex Bank, or

(iii) the conversion of the Central Bank into an Urban Bank dealing only with individuals, and the reconstitution of the Provincial Bank as a new Apex Bank.

(10) A land mortgage Bank on co-operative lines may be organized in the State.

(11) The holder of a decree passed by the Registrar should be given the option to have it executed either by a Civil Court or by the Revenue authorities.

(12) A contribution of five per cent of net profits from every co-operative institution making a profit of over Rs. 100 a year may be levied, and out of the fund thus created a supervising staff may be maintained to supplement the work of the Department staff.

(13) Societies which undertake their own audit work should be required to seek the services of Certified Auditors.

(14) A Co-operative School under the control of the Registrar should be established to train both officials and non-officials engaged in the management of co-operative institutions.

(15) The Co-operative Department should be reorganized.

(16) The bar in respect of Government servants sitting on the Committees of Central Institutions should be removed.

(17) A definite amount out of the annual allotment under Takavi Loan may be placed at the disposal of the Registrar, to be given at his discretion to co-operative Societies for distribution to the raiyats.

(18) Special arrangements should be made in respect of Societies for the depressed classes, in the way of the appointment of a specially selected Inspector to manage a group of such Societies, and the grant by Government of a sum of Rs. 1 lakh for being advanced to these institutions.

Government accepted generally, and gave effect to, all these recommendations, except in regard to items (1), (6), (7), (11), (12), (14), (15) and (16).

7. *Appointment of Present Committee.*

The present Committee was constituted in response to a Resolution moved in the Representative Assembly, which suggested the appointment of a Committee to enquire into the present state of the Co-operative movement and to make recommendations in regard to the future lines of its development.

The need for an enquiry is thus stated in the Government Order :—

"While the movement has advanced in certain directions as the result of measures then adopted, the progress has been meagre in others. Fresh problems have also arisen, and new activities such as, for example, the establishment of land mortgage institutions, have been undertaken. Meanwhile, the trade depression in recent years has put the resources of most of the institutions and their methods of working to a severe test. It is therefore felt that the time has arrived for taking stock of the whole situation and laying down, on considered lines, the policy to be pursued in the coming years for the regulation and healthy development of co-operative institutions in the State."

The terms of reference are as follows :—

"The enquiry entrusted to the Committee will embrace the present state of the co-operative movement in its various forms with reference not only to co-operative credit, but also to co-operative production, distribution and sale, as well as to house-building, insurance and other relatively less developed sides of co-operative activity. It will further comprise an investigation of the financial system generally, including the connection between the various parts of the co-operative organization and an examination of the working and future development of the Land Mortgage Bank; also the promotion of efficiency and convenience in such matters as propaganda, supervision, control and management of institutions and the disposal of co-operative disputes. The Committee will be at liberty to deal with any other aspects of the movement which may seem to it to be of fundamental importance."

The Order of Government appointing the Committee was issued on 29th October 1935. The Chairman opened his office (at "Chandra Vilasa," Basavangudi) on the 1st November, and the first meeting of the Committee was held on the 14th idem. A Questionnaire in English and Kannada was issued on the 21st November, and widely distributed. Copies were sent to all the co-operative institutions in the State, to a large number of official and non-official persons connected with, or interested in, the movement, and to the members of the Representative Assembly and Legislative Council. A few prominent gentlemen outside the State were specially requested to favour the Committee with their opinions and suggestions. The response to the Questionnaire (printed as Appendix I) has been generous, as many as 215 replies having been received from representatives of all views and interests. At the second meeting held on 13th December to consider the lines on which future work should be conducted, the Committee decided to visit a few important places in the State with a view primarily to obtain an idea of the actual working of co-operative institutions of various types, and also to examine selected individuals and meet representatives of institutions at the places visited. Accordingly the members of the Committee toured in the Mysore, Kadur, Shimoga, Chitaldrug and Kolar Districts in the months of February, March and April 1936. A feature of these tours was the holding of informal meetings of representatives of rural and urban Societies, with the primary object of giving them an opportunity to place before the Committee their needs and difficulties and to make suggestions for overcoming them. Typical Societies, both of the credit and non-credit type, were visited at several places and their working examined in some detail. In these ways a certain amount of useful practical information was obtained regarding the actual condition of Societies. Over and above the informal exchanges of views with the representatives of institutions at the places visited, the Committee examined at some length 60 representative witnesses at various sittings. The witnesses examined included prominent co-operative workers, lawyers, office bearers of premier and typical institutions, Auditors and members of the Legislative Council, Heads of Departments, Deputy Commissioners, two Assistant Registrars and the Deputy Registrar of Co-operative Societies. The Committee visited in all 33 institutions in six out of the eight Districts. The names of the witnesses

examined and the institutions visited will be found in Appendices II and III.

The Committee sat from the 15th to 19th June to consider in detail the recommendations to be made as the result of the enquiry. The draft Report was considered at the final sitting held on 13th July, and thereafter signed by all the members.

PART I—ORGANIZATION.

CHAPTER II.

PRIMARY CREDIT SOCIETIES.

1. General.

Preliminaries to Registration.

If there is one thing which the past history of the movement emphasises, it is the importance of strict adherence to good, sound rules, evolved by experience in the light of accepted principles. Practice should be based not simply on the convenience of the moment, but as far as possible on broad general considerations.

An unsatisfactory feature of co-operative administration in the past has been the formation of rural Societies without adequate reference to local conditions and wants. As a rule, the organization of Societies should only be undertaken by the Department or by some responsible non-official agency authorized by the Registrar.

The formation of a Society should always be preceded by enquiries directed to the following among other points :—

(1) the scope for an institution with the objects proposed in the particular locality ;

(2) whether the prospective members are sufficiently acquainted with the main objects and principles of co-operation ;

(3) their general financial position with particular reference to their solvency, and, if they are indebted, whether they appear to be too involved to make the Society successful ;

(4) whether the applicants are men of good character, and the locality as a whole is free from faction and litigiousness ;

(5) whether there is a sufficient number of intelligent and trustworthy persons to manage the affairs of the Society, and particularly as to the suitability of the proposed Secretary and committee ; and

(6) how far adequate working capital can be raised locally.

Members should have explained to them the main principles of Co-operation and the practical working of co-operative Societies. Members as well as office-bearers

and the staff should receive adequate instruction both before and after registration on the best way to attain the objects of the Society; the need for care and discrimination in the admission of persons to membership so as to exclude men of bad character and no substance; the nature of limited and unlimited liability; the meaning of credit; the need for careful investigation of applications for loans and for watching over the proper utilization of loans granted; the need for repayments being punctual and genuine; the vigilance to be exercised and precautions to be taken against irregularities; the mode of keeping the accounts; the responsibilities of managing committees; the powers of the general body; and the necessity for an adequate reserve.

Membership:- Area.

Sufficient care and discrimination is not always, or generally, exercised in the admission of persons to membership. To ensure the mutual knowledge and trust, as well as joint responsibility and control, which is an essential condition of successful working in rural Societies, membership should be confined as a general rule to the inhabitants of a single village if sufficiently large, or of one village and its hamlets, or of a number of villages within a radius of about 3 miles in the Maidan or 5 miles in the Malnad.

Limit of Membership.

Experience shows that an ordinary good rural credit Society can successfully manage about 100 members.* Beyond this limit it tends to become unwieldy and unable to do loan business satisfactorily, and it should be subdivided. Sub-division in such cases is specially necessary if the Society includes more than one village within its area.

There is not the same necessity for limiting the membership in Store Societies depending mainly on consumers, nor is it generally feasible in urban Societies. But where the membership of a Bank becomes so large as to be unwieldy, as it already tends to become in some of the credit Societies in the large cities,—it will be difficult for the general body to exercise its functions adequately and make itself felt in regard to the working of the institution, except in so far as this can be done through the periodical election of directors in whom the majority has confidence.

Exclusive Membership.

The members of a Society should have a certain community of objects and interests. Also, joint and

*The number is put at 200 in Bombay.

several liability to an unlimited extent involves the element of selection. The unlimited liability of a group of thriftless persons is worth nothing, and may, on the contrary, prevent persons of moderate substance from joining. The membership of a village Society has therefore to be selective, and confined to those who are thrifty enough and honest enough to become creditworthy. But excessive exclusiveness is an evil, and care should be taken to see that deserving persons are not excluded merely on the ground of poverty. There should be no pressure in the matter of admission. Societies should be taught the principle of selection, and left to themselves as far as possible to settle individual cases.

Duplication of Societies.

As a rule, there should be only one Bank or other specific type of Society for the same compact area. But where, as in the case of the Bangalore and Mysore Cities and the Kolar Gold Fields, the area is too large to be adequately served by a single institution, separate Societies may be permitted to be formed with different jurisdictions. Occasionally it may be possible for the same Society to open separate branches in different parts of the area. Also in exceptional cases, where there are discordant elements or conflicting interests not easy to reconcile, separate Societies may be permitted. Otherwise, where there are more Societies than one working in the same limited area, either they should be amalgamated if it is possible to do so without material inconvenience to their members, or else the members should be suitably redistributed among the Societies.

On the other hand, where the membership of a Society has become too unwieldy, another similar Society may be permitted to be formed, with provision for the elimination of competition and prevention of overlapping.

Where several institutions of the same type are registered in the same locality, conditions should be attached prohibiting common membership and, as far as possible, for maintaining, especially among urban Societies, some measure of uniformity in the rates of interest on deposits and loans and in the rates of dividends.

For the rest, Societies may themselves secure a large measure of co-ordination in matters of common interest, by mutual agreement or by the formation of unions or federations.

Division of Societies.

The Madras Act of 1932, Section 13, contains provisions as to the division of Societies which may be usefully

extended to Mysore. The operations under them are voluntary and without prejudice to the rights of creditors and third parties.*

Multiple Membership.

It is no doubt desirable, if possible, that a man should be able to get all the proper credit and other facilities he needs from a single institution. Because at present he cannot, he joins a number of Societies of the same kind in his neighbourhood, with the result that he obtains credit from all, often without disclosing to one Society the extent of his borrowings from the others. His indebtedness increases beyond his capacity to repay, and the interests of Societies likewise suffer, particularly if they are Societies with unlimited liability. No member of a credit Society with unlimited liability should be admitted into a second similar Society until he has withdrawn from membership of the former; and no person should be allowed to pledge his unlimited liability in more Societies than one.

Having regard to the extent of the abuse which prevails, it is very necessary to limit the present unrestricted freedom to borrow in credit Societies generally. There should be a definite rule (as in Madras) requiring that no person, being a member of a credit Society, except a land mortgage Bank or a Central financing Bank or a house-building Society, shall be a member of any other credit Society without the general or special sanction of the Registrar, and that, where a person has become a member of two such credit Societies, either or both of the Societies shall be bound to remove him from membership upon a written requisition from the Registrar to that effect. In giving or withholding sanction, the Registrar will no doubt have regard to the position of the person concerned in each case, and whether he is a likely borrower or depositor.

Where a person is a member of an ordinary credit Society and of a land mortgage Bank or Central financing Bank or house-building Society, there should be

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* Briefly, any registered Society may, at a special meeting, resolve to divide itself into two or more Societies, indicating in the resolution the proposed division of assets and liabilities among the new Societies, as well as the division of the area of operation and distribution of membership. A copy of the resolution must be sent to all members and creditors. Any member may intimate, by notice given within three months, his intention not to become a member of any of the new Societies, and any creditor his intention to demand a return of the amount due to him. The preliminary resolution has to be placed for consideration before a general meeting held after three months; and if it is confirmed by not less than two-thirds of the members present,—provision being also made for returning the share capital of members and satisfying the claims of creditors who had given notice,—the Registrar may register the new Societies and their by-laws, the registration of the old Society being deemed cancelled.

provision for mutual consultation between the institutions concerned before a loan is granted to him by either.

Cessation of Membership.

The by-laws of Societies usually specify various circumstances which disqualify a person for membership and render him liable to expulsion. One of these is the continued failure to fulfil his obligations in the matter of dues after the service of a notice by the committee. Arrears should not ordinarily be allowed for more than six months. Whenever it becomes necessary to take coercive steps against a member for default, he should normally be removed from membership unless he at once makes full payment. This is being enforced at present, except in the case of Societies indebted to the Apex Bank, under departmental instructions or by-laws of individual Societies. The matter is sufficiently important to be the subject of a definite rule.

A general rule declaring that defaulters are ineligible to vote at meetings and to serve on committees will be more effective than a by-law. The Registrar should have power to exempt rural Societies from the operation of the rule.

It should be incumbent on the committee to take immediate steps to remove a member who ceases to be qualified under the rules or by-laws.

Objects.

As a Society cannot have any other objects than those specified in the by-laws, and cannot apply its funds to any other purposes than those embraced by them, it is important that the same should be fully and clearly set forth in the by-laws to be approved before registration.

The promotion of religious or political aims does not fall within the permissible objects of a Society. In order to prevent any misuse of the co-operative organization to further such aims, the Registrar should have power to rescind any resolution or action of a Society or its committee or any of its officers, which may contravene the principle that the discussion or propagation of controversial opinions of a political or religious character are to be entirely excluded from the activities of the movement.

Liability.

The law does not specifically define unlimited liability, and occasionally all the obligations involved in the term are not well understood. The "liability" of members is in law their liability for the debts, if any, of the Society, and it only arises when the Society is wound up and the assets prove insufficient. Where the liability is unlimited, that is, not limited by shares or by guarantee, the deficit is recoverable by a series of *per capita*

levies upon the members to the full extent of their property.

Unlimited liability, however, becomes of decreasing importance as Societies accumulate their own funds, shares and reserves, until the stage is reached when the Society possesses all the funds its members require, borrowings from outside cease, and the members have no liability at all.

Unlimited liability is generally understood to be that best adapted for small village Societies which do not require much capital, and in which membership is restricted to a small area so as to ensure close personal knowledge of one another's business, position and character. In such conditions it carries with it certain advantages of considerable importance. Thus, it is the cheapest form of security, the only one that can be developed in a very poor community and on which working capital can be secured for its business. In special cases, where members are prepared to take adequate reserve liability on their shares, an agricultural credit Society may be permitted to be formed on a limited liability basis.

In non-agricultural Societies, on the other hand, liability should, as a general principle, be limited. Where a large amount of capital is required for any enterprise, and the shares have to be drawn from such a wide circle that mutual acquaintance of an intimate nature cannot be guaranteed, then unlimited liability is dangerous.

Management. One of the principal causes of the unsatisfactory condition of many Societies is the lack of trained, intelligent and unselfish men on their committees of management. The complaint that most rural and some urban committees are negligent, partial and irresponsible is not without foundation, nor can it be denied that this state of things is largely due to the general apathy of members and the insufficient interest taken by them in the working of their Societies.

It is a salutary rule that all business in a co-operative Society should be transacted with the maximum of publicity within the Society. Special care should be taken to ensure that the committee of management works as a committee, that it performs its functions regularly and as a body, and that it does not hand over its duties and responsibilities to one or two active members.

It is also important that the committee should not be placed beyond the control of the general body. It

derives its powers from the general body, and it is bound to observe the limitations imposed by the rules and by-laws, as well as by the resolutions of the general meeting, as to the extent of its power to represent the Society. It is necessary, on the one hand, to affirm and safeguard the position of the general body as the supreme authority in all matters affecting the administration of the Society, and, on the other, to see that adequate powers of executive management are delegated to the committee. The allocation of functions in the by-laws should be quite clear and definite in these respects.

Powers and duties of Committees.

Among the powers and duties to be appropriately assigned to the committee of management are the following:—

(1) to deal with applications for membership, and to maintain a register of members up-to-date;

(2) the control of the staff, including appointments, remuneration, leave, suspension and dismissal;

(3) the framing of subsidiary rules for the conduct of the business of the Society;

(4) to deal with applications for loans and for their renewal or extension, and to watch over their proper utilization; to take all legal and authorized steps for their recovery, including the execution of decrees, and to enter into compromises in cases of dispute or just doubt;

(5) to purchase and sell properties on behalf of the Society, subject to any resolutions passed by the general body in this behalf;

(6) within the limits, if any, laid down in the by-laws or (where there is no by-law) by the resolutions of the general body, to fix from time to time the rates of interest on loans and deposits of all kinds;

(7) to incur expenditure on authorized purposes within the sanctioned budget grant;

(8) to maintain true accounts of all monies received and expended and to arrange for their regular audit;

(9) to frame the annual budget and to prepare and present a profit and loss account to the general meeting;

(10) to invest the funds of the Society in good securities and to the best advantage of the Society;

(11) to hear and dispose of petitions and complaints;

(12) generally, to carry on the executive management in the best interests of the Society.

Powers of General Body.

The general body should have power, among other things, to consider and sanction the annual budgets, to criticise, approve or reject the annual reports of work, to appoint outside Auditors, to make alterations in or additions to by-laws, to convene extraordinary meetings, to appoint special committees for inspection and investigation in cases of maladministration, and, generally, to lay down policies and to review the work of the committee. It should not interfere with the executive actions of the committee within the scope of the functions legitimately assigned to the latter; but it should be open to it in an emergency to revise the decisions of the committee where these have not already been executed and so as not to affect the position of third persons. Where the committee has acted within the limits of its delegated authority, no resolution of the general body which would be to the prejudice of third persons ought to be given effect to; if necessary, the intervention of the Registrar should be obtained in the matter. In other cases it would seem quite open to the general body to review and if necessary revise the actions of its agent, the managing committee, though whether such interference is or is not desirable would depend on the circumstances of the particular case.

NOTE.—Messrs. Krishna Rao and Sesha Sastri think that the power of revision should only be exercised if expressly reserved to the general body by the by-laws of the Society; but the other members consider that this is an inherent power and so does not require special reservation.

It happens that in many cases the committee has acted in the exercise of a certain discretion vested in it by by-law; and the point has been raised whether the general body can circumscribe that discretion by a resolution directing its exercise in a particular manner. For instance, suppose the committee of a Society is empowered by by-law to issue loans at rates of interest not exceeding 8 per cent, and in pursuance of such power fixes it at 7 per cent, and the general body resolves at a subsequent meeting that the rate of interest in all cases should be 6 per cent only. The difficulty here is that a definite majority (usually two-thirds) is necessary for the making or alteration of a by-law; whereas a resolution may be, and in the generality of cases is probably, passed by a simple majority only. While the general body cannot be denied the power of laying down subsidiary instructions for the guidance of the committee even in

matters of delegated authority or discretion, this power should be exercised under the same procedure as regards previous notice, the requisite majority and other formalities, as was necessary for the passing of the by-law which is subsequently sought to be circumscribed. If this is not done, the resolution can only have effect as a recommendation or as an expression of opinion.

Unless where the membership becomes unwieldy, in which case the proper remedy is to form another Society, it does not appear that there is any advantage in having an intermediate board of control or council of vigilance or supervision. The interposition of such a body is apt to lead to meddlesome interference and to the undermining of responsibility. The power of interpellation, and of discussing and reviewing the annual reports and accounts, together with the appointment of Auditors, will usually give the general body a sufficient voice in the administration.

Period of office.

The period for which a committee is elected should not as a rule exceed one year; and members should be advised at general meetings to exercise their power of choice freely. As a safeguard against the same committee continuing in office for long periods, and at the same time in order to ensure the advantage of experience and some continuity of policy, the by-laws of Societies should provide for the compulsory retirement by rotation of a certain proportion (between a third and a fourth) of committee members every year, and their replacement by new members. The method of selection for retirement will be determined by the by-laws of each Society. An exception to this may, however, be allowed in the case of Societies where the needful facilities for change do not obtain.

For similar reasons the Committee welcomes the rule recently passed by Government that "no person shall be elected or appointed as Honorary Secretary of a Society, if he has acted as such Secretary for a continuous period of three years preceding such election or appointment except on the sanction in writing of the Registrar or the Assistant Registrar."

There have been several instances of the same persons securing places on the committees of more Societies than one. There is no harm in this so long as the Societies are of different types not likely to have conflicting interests, and so long as the individual concerned can do adequate justice to his duties and responsibilities with

regard to each institution. But no person should ordinarily be eligible to serve simultaneously on the committees of more than one Society of the same type without the sanction of the Registrar. A Central financing institution and a primary urban Bank may be taken to be of different types for the purpose of this rule.

Qualifications for Membership of Committees.

The management of co-operative Societies should not be entrusted to members absolutely ignorant of co-operative principles and without adequate training and experience, as they are in too many cases at present. This, however, is largely a matter for discernment and careful choice on the part of the electors and not for the laying down of any specific rule.

It has been urged by several witnesses, though strongly opposed by others, that the holding of a minimum number of the Society's shares should be laid down as a necessary qualification for a seat on the committee. This, it is argued, will give a person a "stake" in the Society, and an interest in its well-being. The value of a share in an ordinary credit Society is presumably fixed at an amount sufficient to attract the type of persons intended to be benefited. The possession of a few additional shares of the same value can hardly be said to enhance the sense of responsibility or interest to be expected of the members of a co-operative Society. Too high a share limit may, on the contrary, pander to the unhealthy desire for high dividends, concentrate power virtually in the hands of a small capitalist clique, and shut out a good many members eligible in other respects. The primary utility of the share system is not as a source of pecuniary interest or profit for the individual, but as a means of promoting thrift and of building up working capital and inspiring confidence. In this view a man with a single share may have as much stake in his Society, and real interest in its welfare and efficiency, as one who holds several. It is after all for the general body of each Society to choose those whom it considers best fitted to guard and promote its interests; and this freedom of choice should not be needlessly circumscribed.

NOTE.—Messrs Krishna Rao and Sesha Sastri are, however, of opinion that a rule may be framed on the lines of the Madras Rule XXVI(2) relating to Central Banks, and made applicable to all urban Societies.

There are, at the same time, various circumstances which are rightly considered to disqualify a person from

being elected to, or continuing to serve on, the committee of his Society. Among them may be mentioned the following:—

(*a*) being in default to the Society in respect either of his share amount or of a loan taken by him or of a loan for which he has stood surety for another;
(*b*) failing to attend a minimum number of consecutive meetings, usually three or four;
(*c*) holding a salaried office or other place of profit under the Society;
(*d*) the carrying on of any business similar to that of the Society and likely to compete with it;
(*e*) being concerned or participating in the profits of any contract with the Society;
(*f*) being adjudged an insolvent;
(*g*) insanity;
(*h*) being sentenced to imprisonment for a term exceeding six months.

The right of removal in all such cases must of necessity vest in the general body. The Registrar has also under the rules the power to order the removal of any member from the managing committee if he is satisfied that such member has acted in any manner contrary to the best interests of the Society. This, of course, is a power to be held in reserve, and only to be used in exceptional cases.

Apart from any such specific qualifications and requirements, the object in view should be not to limit the sphere of choice, but to ensure that the candidates chosen shall be such as, by character, ability, experience and position, may be trusted to carry on the management in the best interests of the Society and its members.

Remuneration.

It has been generally understood that the work of office-bearers (as distinguished from the staff) should be honorary. This is so especially in rural Societies, where the work is simple and light and can be attended to during the hours of leisure. In all agricultural and in the smaller non-agricultural Societies, the chairman and all the members of the managing committee should serve without remuneration. In other institutions where the work is complicated and heavy and requires much time on the part of one or more members, a moderate honorarium may be paid. In Central institutions and land mortgage Societies, where directors have to come from a distance, actual out-of-pocket expenses may be and are usually paid.

The question of remuneration becomes important mainly in connection with the office of Secretary, which carries heavier and less attractive duties. Gratuitous and efficient service is not always available, and some reasonable compensation by way of bonus will usually have to be paid. The present limit of 12½ per cent of net profits, subject to a maximum of Rs. 250, is generally recognized to be too low, and may be raised to 15 per cent with a maximum of Rs. 300. Where no clerical assistance is given to the Secretary, an addition of 5 per cent may be allowed.

A group of small rural Societies located near each other may have a common Secretary and share in the remuneration payable. But in all other cases there must be a separate Secretary for each Society if the work is to be efficient.

The personnel of managing committees is apt to change from year to year; and the interests of Societies often suffer owing to the absence of a permanent staff fully conversant with past transactions as well as with routine work. Every Society which can afford the cost should have a full-time paid staff, for this among other reasons that its work can be properly controlled and supervised by the committee and the Chairman, and that adequate security can be demanded from the employees. In every credit Society with heavy transactions there should be also a trained and fully qualified man as Manager. The latter may be styled Assistant Secretary *ex-officio*, the designation of "Secretary" being reserved for the holder of the elected office, which will then be a purely honorary one.

It will of course be feasible and advantageous to associate honorary and part-time members with the paid staff for definite purposes, such as internal audit, the management of stores, and so on.

2. *Rural Credit Societies.*

Much of what has been previously said with regard to primary Societies applies with special force to rural credit Societies; particularly the need for preliminary enquiry, the adequate instruction of members and office-bearers in co-operative principles and methods, and the selective limitation of membership. Admission to such Societies should be restricted to persons who have sufficient personal credit. While careful management is always

of the first importance, it is particularly so at the present juncture when so many Societies are in an unsatisfactory condition. Competent Secretaries must be appointed, and paid suitable remuneration where necessary; and provision should be made for adequate supervision and control.

3. *Urban or Non-agricultural Credit Societies.*

Societies with a mixed composition are classed as non-agricultural. Their membership is usually varied, consisting of small traders and shop-keepers, artizans, salary-earners, and agriculturists. Women freely seek admission and are freely admitted. Practically all the Societies in Taluk and District headquarters are non-agricultural.

The members of these Societies are as a rule fairly well-to-do, and their liability is limited, with the result that there is little mutual interest or responsibility. In consequence the problems which such Societies offer have not much in common with those of unlimited liability Societies. On the other hand, their only apparent difference from joint stock Banks is that borrowers are compelled to purchase shares. The capital needed is mostly raised from shares and local deposits. The loans granted are for short periods; and as repayment depends solely on the sufficiency of the security for each individual loan, this point usually receives due attention. The members are, with few exceptions, literate, and there is little difficulty in securing proper persons to serve on the managing committees. The funds raised being mostly local, considerable watch is kept by members on the acts of their committee, and any serious irregularity or neglect is usually noticed immediately and put right.

Model by-laws have not yet been prescribed for urban Banks. There is at present no restriction placed on the number of members admitted, for the reason that mutual knowledge is of little consequence and the business is more technical than personal. But in some of the City urban Banks, the membership is excessive with the result that the management is unwieldy and the interests of members are not properly looked after. Where the membership of a Bank exceeds a general limit of 1,500, (or, with the special permission of the Registrar, 2,000), further admissions must be stopped, the needs of new applicants being served by the formation of an additional Bank, and the sphere of operations of the two Banks

defined (on a regional, occupational or other suitable basis) so as to avoid overlapping.

NOTE.—Messrs. Krishna Rao and Sesha Sastri think that no restriction as to membership is necessary.

There should ordinarily be only one Bank for each urban area, with (if necessary) one or more branches in the outlying wards or suburbs. But in the larger towns and cities it would be preferable to have separate Banks with jurisdiction over different parts or extensions so as to avoid needless competition and conflict of interests. In such a case it would be well if the different institutions could make some provision for the co-ordination of activities and promotion of common interests through mutual consultation, periodical conferences of office-bearers, and, if practicable, the federation of various Societies into a consultative Union. A praiseworthy step in this direction is a voluntary federation organized by the Societies working in the Mysore City. The object, among other things, is to secure uniform rates of interest and uniform periods of repayment in all the institutions, to prepare and circulate periodical lists of defaulters, and to study various aspects of the co-operative movement and make the results available to the constituent Societies.

Care should be taken (as already enjoined) to see that the same person is not permitted to become a member of more than one credit Society or Bank; or to take loans from more than one. No person should be admitted to membership of any Society if he has not fully discharged his obligations (if any) to other Societies.

The urban banking movement has taken deep root and is generally developing on proper lines. The Banks are very popular, and are contributing definitely to a growth of the habit of thrift and of the banking habit, especially among the smaller men. Efficient, and at any rate semi-expert, management is essential, and it is therefore necessary to have, particularly in the larger Banks, a qualified person as Manager.

Turning now to the future possibilities and development of the urban credit movement, it may be observed that urban Banks, provided they are efficiently managed and financially sound and have an adequate owned capital, should not be content with being simply money-lending institutions with no wider objective than mere credit, but should strive to be people's banks in the real sense, rendering to their members such services and

facilities as are ordinarily afforded by joint stock Banks: such as the opening of current and savings accounts in addition to receiving fixed deposits, the issue of prudential deposit bonds and cash certificates, the offering of cash credit, the cashing of cheques and the discounting of bills, the realization of monies from other Banks and Societies, and of salary and pension bills, and so on.

Urban Banks can also, with due regard to their resources and the limits of safe investment, finance economic activities calculated to secure the well-being and prosperity of their members. While it would not be advisable for them to take direct part in the conduct of such activities, except in such matters as stores and the purchase and sale of produce, etc., they can do much indirectly to encourage the development of cottage industries, handicrafts and small trades, by the grant of the requisite finance on appropriate security.

4. *Special types of Societies.*

Grain Banks. Grain Banks have for their object the collection of grain from members at harvest time and the lending of the same to needy members. Interest is charged in kind, and the recoveries are also effected in kind at the next harvest season.

Grain Banks, however, can only succeed if there are efficient and disinterested workers, and proper granaries for storing the different varieties of grain. Watch and ward arrangements are not easy; and, besides, the grain stored is liable to loss and damage. It is, too, usually difficult to judge what proportion of the grain stored is in excess of the needs of the members and may be sold.

In view of these and other difficulties the utility of Grain Banks is found to be strictly limited. By themselves they are inadequate to meet the requirements of agriculturists. And any functions they could usefully perform will be better fulfilled by agricultural supply and sale Societies in addition to the ordinary cash Banks.

The formation of these Banks in the Mysore State was due more to the enthusiasm of a few officers than to any popular demand. The experiment as a whole has been a failure. Most of the Banks are either defunct or doing little useful work; and it has been decided to wind them up in course of time.

Women's Societies. Societies consisting entirely of women are not many, and their number is dwindling. There were 12 such

Societies in the year 1934-35, with a membership of 673, a share capital of Rs. 10,674, deposits to the extent of Rs. 3,652, and a total working capital of Rs. 15,309. Their total transactions amounted to Rs. 47,385, resulting in a net earning of Rs. 780.

So far, the main function of these Societies has been to lend money, which, as personal security is out of the question, is usually advanced on the pledge of jewels. While it cannot be denied that there is a fairly large and growing number of ladies, especially in the Cities, who are earning their own living, and that it may be a convenience to these, and particularly to widows and unmarried ladies not dependent on male relatives, to have facilities for occasional small loans, it does not appear that there is any special need for separate credit Societies for women as a class. As a matter of fact, these are as a rule being freely admitted into general Societies, and do not find any unusual difficulty in obtaining credit under the ordinary conditions. On the other hand, practical experience shows that the working of separate credit Societies for women is attended with special difficulties and dangers connected with management, the custody of funds, the taking of security, the recovery of dues, and so on.

Where separate Societies may advantageously be organized is in connection with the encouragement of thrift through the systematic collection and investment of savings, the carrying on of simple home industries, and the purchase and sale of articles produced by women, as well as in connection with the training and employing of women in such occupations as needle-work and embroidery, hosiery, and basket-making.

Stores Societies may well provide special facilities for lady customers for the making of purchases, as well as for offering suggestions as to the articles of household use that may be stocked.

Where there is a sufficient number of women members in a Society or Bank, and none of them comes in by election into the committee of management, it may be desirable, whenever possible, to co-opt one or more of them into the committee.

Communal Societies.

While there can be no objection on principle to Societies being formed for specific purposes, or for particular trades or crafts (such as weaving and sandalwood carving) or for the promotion of common economic interests (such as the consolidation of holdings), there are

various theoretical and practical objections to the formation of purely communal Societies. The case of the Adikarnatakas is an exception, based on the extreme backwardness of the particular community and on the need for special assistance from Government. Even here the aim must be to include them within the scope of general Societies in course of time.

When the question arose in 1929, the Government of Mysore agreed that on principle " sectarian " Societies are prejudicial to the growth of the co-operative consciousness, but considered it unnecessary to prohibit the starting of any class of Societies.

It so happens that Societies confined to the members of a particular community have already been allowed to spring up, and in some instances are working successfully; and it seems too late to discuss whether the formation of such Societies should hereafter be permitted. They have, at all events, the one merit of securing intimate touch between the members of the particular community concerned; and provided their activities are confined to the promotion of the economic interests of their own members and do not overflow into anti-social channels in relation to other communities, there is no reason to place any particular restrictions on their working.

Societies for Depressed Classes.

As was pointed out by the Mysore Co-operative Committee of 1923, the condition of the depressed classes is peculiar. They are, as a rule, extremely poor and possess no property. Their only asset, and their only basis of credit, is labour and character. Co-operation must in their case stimulate thrift, increase earning capacity, and secure a larger margin of income through better marketing. The principle that special measures of amelioration are necessary in the case of the depressed classes has been recognized by Government. Special Societies have been formed for their benefit, and assisted with advances from the State on easy terms of interest. The great difficulty in the case of these special Societies is that of management and supervision, which cannot now or for several years to come be left to the members themselves.

The depressed classes Societies at present in existence are as a rule not working satisfactorily. Besides the fact that they do not attract deposits, their failure may be traced to the illiteracy, ignorance and improvidence of the members, their low credit and repaying capacity, and the paucity of good workers. The present policy of

the Department is either to cancel such Societies or to amalgamate them with other local credit institutions.

Special Adikarnataka Societies should only be continued in respect of specific trades like shoe-making and weaving, or where Adikarnatakas cannot get admission freely to the general Societies. But, as a matter of fact, they are being freely received into, and can obtain better credit facilities from, the ordinary credit Societies.

Adikarnataka Societies, as long as they are continued, require special help in the shape of a paid Secretary, who will not only manage the Society, but also do propaganda and education work, and in the shape of loans for varying periods at low rates of interest, and also provision for subsidiary occupations for the members. It would greatly improve the position of the community if lands could be procured for them for cultivation at concessional rates, and sites allotted in convenient blocks for the building of houses, together with building materials at cheap prices.

Societies for Salary Earners.

One of the main objects of special Societies for salary earners should be to encourage thrift and to collect and invest the savings of their members. Such Societies, if properly run and adequately financed, ought to meet all the ordinary requirements of their members, and in particular save them from running into debt. The facility for automatic recoveries of dues from weekly or monthly wages or salaries is an exceptional advantage which these Societies enjoy.

Subscriptions to provident funds may well be made compulsory. In view of the benefits of insurance and the handsome agency terms offered by established Insurance Companies, it should be possible for Societies of salary earners to secure the advantages of co-operative insurance for their members, where these do not come within the benefits of the Mysore Government Life Insurance scheme. They may in particular take up agency work, as has been done by some ordinary credit Societies.

Also in some of the Societies organized for mill labourers, the members have been materially helped to redeem their debts to usurious money-lenders and saved the necessity of further resort to them.

In the case, however, of the lower paid Government servants, there is reason to think that the ordinary co-operative Societies, instead of promoting thrift and bettering their economic position, have unwittingly facilitated their getting into debt without prospect of extrication unaided. Nor have they prevented these persons

from resorting to private money-lenders. Many officials are members of more Societies than one and have often obtained the maximum possible credit from each.

It is not easy to suggest remedies which shall be wholly efficacious. Nevertheless it is clear that the scope for indiscriminate borrowing will be greatly curtailed by a rule, on the lines already recommended, imposing stringent restrictions on multiple membership. A Government servant, in particular, ought to be prohibited from borrowing from an ordinary credit Society—or, for that matter, from any outside source,—so long as there is a departmental or office Society of which he is or can be a member, and which is prepared to give him sufficient and reasonable credit for his current requirements up to the maximum limit of his borrowing capacity. At the same time, it is necessary, in the interests of the officials themselves, and in the interests of the purity and efficiency of the public service, to devise a scheme for the redemption of the existing outside debts of officials, preferably through the agency of departmental Societies. Proposals for the formation of such Societies are believed to be under the consideration of Government. It need only be remarked that substantial advances from Government will be necessary, especially in the earlier stages, if the work is to be done systematically and well.

CHAPTER III.

PRIMARY NON-CREDIT SOCIETIES.

1. General.

Scope for non-credit activities.

A successful credit Society, it has been observed, is the best basis on which to organize other types, but it is not easy to educate the people to the advantages of these types. Debt is felt as a burden, but there is not the same ready appreciation of the value of joint purchase and sale, of insurance, or of the many schemes with which experiments have been made.

Also non-credit business on any considerable scale can only be undertaken with any hope of success with strict and efficient management. The lack of this is the main difficulty in the way of the proper development of this side of the movement, while the unsettled condition of prices operates as an additional handicap to the progress of agricultural non-credit Societies.

Since agricultural non-credit work, besides being less immediately appealing to the people directly concerned, is also far more difficult to carry on efficiently, the progress made has naturally been much less marked; and consequently the development of co-operation so far has been more or less one-sided.

It is, however, generally recognized that there is a wide field for the beneficial application of the co-operative principle which extends far beyond the problems of debt. And there is a growing feeling that the full, if not the principal, benefits of the movement cannot be secured to agriculturists unless they are organized to help themselves in other directions, such as the joint purchase and sale of produce and agriculturists' requisites. As has been pertinently remarked, if the cultivators in the mass are to be won over to the use of better seeds, to improved methods of cultivation, to the better care of cattle, to the adoption of precautions against animal or plant disease, it must be through the agency of their own co-operative Societies, since no official organization can possibly reach the millions engaged in agriculture. Besides, it is only through the medium of co-operative associations that the teaching of the expert can be brought to multitudes who would never be reached individually.

Combination or Separation of Purposes.

How far different forms of co-operation may be combined in the same Society has led to some controversy in the past. The single purpose idea was at one time the one most generally accepted. But opinion is now coming round to the view that the matter is one of expediency and convenience rather than of rigid principle. No hard and fast rule or practice has yet been established. The economic life of the village is as a rule simple and undifferentiated in type, unlike that of urban areas, which is characterised by a larger differentiation of conditions and occupations; and so the scope for distinct organizations is strictly limited. Also, where business activities are involved, business management is required, and it is not always easy to find the capacity for this amongst the members of Societies. Lack of training has not infrequently limited the choice of members of committees, and often the men most fitted to serve in credit and non-credit Societies are the same. At the same time, the experience gained in the one side of activity will often be valuable in the undertaking of the other. In such cases, instead of starting a new Society for the new purpose, it may be better to persuade the members of the existing Society to undertake the additional functions, and to bring other members into their fold. Where the secondary object is of minor importance, such as the occasional distribution of seeds or the supply of improved implements and analysed fertilizers, the additional duty may well be undertaken by the credit Society. Not a few Societies returned as credit Societies have such annexes, maintaining separate accounts, but with the same membership. But where the new object is of such a distinctive character that it appeals to a different membership, separate Societies must be, and are usually, formed. The fact that rural credit Societies have unlimited liability is recognized as an impediment to their undertaking business for which limited liability is more suitable; and where Societies with unlimited liability are undertaking other liabilities, it is usual to keep separate accounts for the latter.

On the whole, therefore, assuming that incompatible activities are not combined, that unlimited liability is not risked in transactions for which it is unsuitable, and that efficiency is in no way sacrificed, there is no objection to credit Societies undertaking non-credit activities as additional or secondary functions, the transactions and accounts of the two sides of activity being kept distinct.

2. *Agricultural Purposes.*

Loan and Sale.

Loan and sale Societies are of limited liability, and may contain (as in Madras) both individuals and Societies as shareholders. Loans are granted to members only, on the security of agricultural produce pledged to the Society and placed in its custody, and to the extent of 60 per cent of the value of the produce, which is stored in godowns owned or rented by the Society. Advances are also made for cultivation on condition that the produce raised will be taken in due course to the Society's godown.

Loan and sale Societies offer a very promising means of increasing the wealth of cultivators by enabling them to avoid the middleman and withhold their crops from market till they can obtain reasonable prices.

The organization of Societies for the sale of agricultural produce has made very little progress. Though some attempts have been successful, others have failed. There have been special difficulties to be faced, such as the absence of cohesion and loyalty among the producers, the difficulty of obtaining enough funds to be advanced to members before and after the produce is received for sale, the lack of business experience, the opposition of local vested interests, and the unequal competition with the private shopkeeper with his peculiar methods of business.

There were seven Societies for the sale of agricultural produce during the year 1934-35; two of them being for the sale of cardamom, three for the sale of areca, and two for the sale of cotton. The cardamom Societies did a fair amount of work in the sale of produce grown by their members; but their transactions ended in a small net loss. The areca Societies had no transactions. Of the two cotton sale Societies only one, the Maradihalli Society, did some appreciable work. As this is a type of a good Society with future possibilities, it deserves a word or two of mention. It purchases cotton seeds of superior quality from the Agricultural Department, and distributes the same to members on credit on the understanding that these will bring the grown cotton to the Society to be ginned and sold in bales on commission. The Society also gives advances on crop. Though the transactions are not large, a small profit has been realized; and the management is careful and efficient. There is much scope for similar Societies in the Chitaldrug District.

Crop loans.

There is a prevalent misapprehension that crop loans are risky and troublesome and to be avoided as such;

but under due safeguards (the principal of which is adequate personal security from the borrower, a certain amount of supervision over the crop when it is on the land, and in the case of harvested crop its proper custody and warehousing), the system is quite safe and easy to work. It is, besides, of considerable practical benefit to cultivating raiyats, who require short advances at various stages both when the crop is standing and after it is harvested. The value to be attached to this form of assistance may be seen from the fact that the Registrar was requested by the Mysore Government (in an Order of the 30th August 1929) " to pay special attention to rural Societies which give short-term loans on the pledge of standing or harvested crops, and to see that they are developed and become a source of real help to the raiyats."

Requirements of Loan and Sale Societies.

The organization of separate loan and sale Societies, working independently of credit Societies, requires active encouragement and support from the Co-operative Department, and sufficient financial assistance in the early stages from the Provincial Apex Bank. In order to prevent advantage being taken by middlemen, loans should be limited by by-law to the case of produce grown by members. Strict precautions should be enjoined in such matters as the valuation of the produce, its secure storing and periodical inspection, the insuring of hazardous commodities, and so on. Where suitable godowns are not available for rent, Government may be moved to advance loans for their construction on an inexpensive scale.

The full success of these organizations is dependent on access to recognized markets or the opening up of new ones, especially in the case of the commercial crops.

Joint Marketing.

There is a general concensus of opinion that the time has arrived for a material extension of marketing facilities in the State. The co-operative movement can play a great part in the work through Societies for the marketing of commercial crops and industrial products. Liberal help from Government will be needed in the shape of grants for initial expenses, and advances for the building or hiring of warehouses or godowns in trade centres. A beginning may be made by way of experiment in selected areas where the conditions are favourable and the necessity is greatest, as in the case of the areca-growing tracts of the Malnad, such as Sagar, Tirthahalli and Koppa.

Case of Areca-growers.

Our enquiries show that there is urgent need in these Taluks for Societies which will advance money to areca-growers at various stages before harvest (for spraying and

preparing, for paying the assessment and for subsistence) on the security of the standing crop, sell the harvested produce in the best market, and make over the balance of the price to the growers after deducting the advance and the commission. Such an organization, besides bringing salvation to the areca-growers, will break the monopoly of the merchants at Shimoga, who at present dominate the situation. A capital of at least Rs. 15 lakhs will probably be required for the purpose ; half of this can presumably be raised by share capital, if the other half is advanced by Government at low interest.

The question of forming a Central Areca Sale Co-operative Society, with godowns at Shimoga and affiliated Societies or branches all over the areca-growing area, was at one time under consideration of Government, but was deferred in 1931 on account of the trade and economic depression. Action in the matter seems overdue ; and not the less so because areca-growers who are already heavily indebted have been hard hit by the sudden fall in prices.

Great care will of course be required in the organization of such Societies. Expert advice and skilled technical guidance are necessary ; but even more important is proper business management, knowledge of market conditions, and command of adequate funds.

Sale of products.

Apart from special commercial products like areca, coffee, cardamom and pepper, there are numerous other articles capable of being dealt with by marketing Societies with a rather smaller capital ;—such as cotton, cocoa-nuts, ground-nuts, food-grains and jaggery.

Instead of purchasing their members' produce outright, Societies may often at first find it safer to act as agents merely for sale. They should deal, as a rule, only with the produce grown by members, taking up other produce only where it is distinctly advantageous to their business to do so. An instance of what is feasible in this direction is the Paddy Society which has been recently started at Mysore City. It gives members storage facilities, gets their paddy milled, and undertakes to sell the milled paddy at a commission.

It will be of advantage to marketing Societies, when well established, to have their own mills or apparatus to convert raw produce into some form of finished goods, even if it be not the final form ; as, for instance, a rice-mill, a grinding mill for soap-nut powder, small gins for ginning cotton, and—a rather more ambitious concern—coffee curing works (at Chikmagalur).

Marketing Societies should link themselves with consumers' Societies (Stores) as far as possible, and confine their transactions at first to such products as may find ready sale among co-operative consumers.

Supply of Seeds, Manure and Implements.

Special Societies formed for the supply of seed, manure and implements have not, with a few exceptions, proved very live institutions, owing to the dearth of honorary workers and also to the pernicious system of credit sales. As continuous attention is not involved, and it is difficult to find enough efficient workers, the work has been taken up by many credit Societies with useful results.

At first the Government set apart a small sum to be advanced to Societies for the purchase of improved agricultural implements, seeds and manure to be stocked for sale. The financing of this form of activity was later transferred to the Apex Bank, which was given by Government a cash credit of Rs. 15,000 for the purpose. Special types of ragi seed, selected by the Agricultural Department, have been distributed through these organizations; but in the case of other varieties of seed, and of manure and improved implements, the work done has so far been limited. A few Societies have in the past made a small profit from such activities.

The Agricultural Department may with advantage utilize more largely the agency of credit Societies for distributing improved seed and implements, and also help in the general supervision and development of special non-credit Societies. As remarked by the Maclagan Committee, provided Societies are used, not for experimenting in new processes but strictly for popularizing proved improvements, nothing but good can be expected from the assistance of the Agricultural Department. Societies should not be required by the Department to purchase things outright irrespective of whether this would work at a profit or loss.

Demonstration.

There are no special Societies in Mysore for agricultural demonstration and supply. Such Societies, while offering means of increasing the cultivator's income, are not easy either to organize or to administer successfully. Exploration of useful forms of activity in this and similar directions requires special attention on the part of technical officers of the Agricultural Department.

In other parts of India where such Societies exist, small plots of land are taken on lease, and cultivated partly by ordinary methods and partly by the improved

methods recommended by the Agricultural Department, with results in favour of the latter.

Irrigation.

The co-operative Irrigation Society has for its object the construction of new sources of irrigation and the improvement of those already in existence.

The Government of Mysore have in the past advanced substantial loans to some Societies for installing machinery for lifting water from rivers for the irrigation of wet lands, but we note that the result has not been encouraging, and the Societies have had to be wound up.

Conditions at present are not very favourable for organizing new Societies of this type. But when the demand arises in future, the Co-operative Department may actively help efforts in that direction, by procuring expert opinion in the Industries Department and obtaining and offering advice as to the type of plant to be ordered, and so on.

Consolidation of Fragmented Holdings.

The fragmentation of holdings is not yet an acute problem in Mysore. A Committee appointed by the Government to examine the question has reported recently that about 85 per cent of the holdings in the State consist of from one to five plots only, which shows that fragmentation has not progressed to any alarming extent. The Committee was at the same time of opinion that there are cases in which consolidation would be of great advantage, and that permissive legislation may be undertaken, on the lines of the Central Provinces Act, to provide for consolidation being carried out in villages where a majority of the owners holding a certain minimum area of land have agreed to the preparation of a scheme.

We agree in this opinion, and we consider that action in the direction of consolidation must be essentially on a voluntary basis and must be actively helped and encouraged by the State. People have to be educated to a knowledge of the evils of excessive sub-division and fragmentation, and familiarized with the possibility and material economic advantages of consolidation by mutual agreement. Intensive propaganda of this kind in particular localities will prepare the way for the organization of co-operative Societies of which the members agree to a redistribution of their lands according to a scheme prepared by expert staff and confirmed by a general meeting. Successful work in this direction is understood to have been achieved elsewhere, especially in the Punjab.

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Other Agricultural Purposes.

Measures for the general improvement of methods of cultivation offer a fruitful field for co-operative activity. These are likely to be more effective when undertaken through organized groups than by individual effort. "With the mass of the cultivators enlisted in the campaign for their own improvement, miracles can be achieved; without that, a minority only will benefit from the labours of the experts." Consequently, preference both of time and attention on the part of expert agency should always be given to a co-operatively organized body of cultivators over isolated individuals.

3. *Animal Husbandry.*

Cattle-breeding.

Cattle-breeding is a most important element of rural prosperity; and the common ownership and use of breeding bulls will certainly help in improving the general type of cattle in rural parts. But Societies for cattle-breeding can only be properly organized in the bigger villages, and that too if adequate grazing grounds be made available on favourable terms. Apart from co-operative action, the most practical form of help for the present is to induce raiyats to buy and maintain one or two good breeding bulls for their village. A large number of Village Panchayats and some District Boards have already taken up the work of providing breeding bulls.

Dairying.

Dairy Societies can be of two types,—one formed by the consumers for the supply of their milk requirements, by owning and maintaining the necessary herd of milch cattle, which is the true Dairy Society, and the other formed by milk-dealers, to market their milk, etc. While there appears to be good scope for the formation of either class of such Societies in the cities of Bangalore and Mysore and in the villages in their vicinity, the latter class seems to be easier to form and equally useful to the city dwellers for the supply of good milk. It is common knowledge that private dairymen in Bangalore and Mysore collect milk in large quantities through their own agents or other middlemen from villages round about the two cities and supply them as milk or butter to the citizens. This is hardly as satisfactory or as fully beneficial either to the consumers or to the producers, as if the producers were organized and made to supply pure milk to the residents of the neighbouring cities through co-operative agencies. The real initial difficulty in the formation of a Society of this type seems to be the absence

of a definite and assured market for the produce. A corresponding organization of the consumers on the other side would considerably remove this uncertainty; but an assurance from Government to purchase the milk requirements of the Government medical institutions from such Societies until they build up a definite and certain demand from the public might greatly help in their success. Initial help will also be required in the shape of dairy equipment and charges of management for the first few years. Incidentally such Societies will create subsidiary occupations for the villages round about the two cities and to that extent improve their economic position.

As an example of successful work of the former type might be mentioned the Dairy Section of the Mysore Lancers Society. It is also learnt that good work along the latter line was being done for sometime by the Hebbal Co-operative Society; but a more successful institution, which is still operating, is the Lalithadripur Co-operative Society near Mysore.

Cattle Insurance.

A scheme for the formation of co-operative Cattle Insurance Societies was sanctioned by Government in 1920; but it did not materialise, which is not surprising. Cattle insurance is a somewhat speculative undertaking and requires expert knowledge. There has so far been no genuine demand from the people for such Societies in Mysore, and there are none now working. As a matter of fact, cattle insurance is too advanced for the type of members concerned and has not proved popular anywhere in India. In Burma, where the experiment was tried under rigorous conditions, the movement was never self-supporting and was always dependent on the active assistance of Government officers. The Burma Committee considered that it would be a waste of valuable time to attempt to revive this difficult phase of co-operative activity, and recommended that the Societies which were doing no work should be closed down.

4. Industrial Purposes.

Rural Industries.

By far the greater number of agriculturists in India have the time at their disposal to pursue profitably one or other of the small village and domestic industries with a view to add to the income from agriculture. The problem of the villager, as is generally recognized, is not only to finance his agriculture, but also to find work for his spare time and spare hands. The energies of the

co-operative movement must be turned in increasing measure to organizing the people for village industries, and to supplementing their regular pursuits by side occupations. This has to be done through Societies of various kinds which will provide raw material, employ labour, advance wages, provide wholesale depots, and arrange for the sale of the finished products in towns and commercial centres.

There are various industries which may advantageously be worked and developed on co-operative lines, such as the following: hand-spinning and weaving, *khaddar*, hosiery, needlework, carpet making, *cumblis* (out of wool supplied), *sadis*, mat-making, basket-making, rope-making, book-binding, rattan-work, shoe-making and making of leather goods generally, the making of bangles, button manufacture, carpentry, cabinet-making, making of country carts, iron tools and utensils, country tiles, pottery, making of matches, apiculture, sericulture, butter-making, pounding of paddy and rice, condiments and confectionery, coffee and cardamom curing, and sandal-wood and ivory carving. The cheap supply of electric power that is being given in the Mysore State for industrial purposes, besides helping some existing industries, will also no doubt stimulate the starting of new industries in course of time.

Cottage industries have largely declined in recent years, as the result mainly of the lack of interest on the part of Governments until very recently, and the increasing competition of organized industry. In view of the fact that some of these industries provide subsidiary occupations for the large mass of the agricultural population, while some others are likely to provide alternative occupations for people now engaged in agriculture, special attention should be devoted to their development by both the Departments of Co-operation and Industries.

Attempts to reorganize village industries on a more profitable basis cannot, of course, be undertaken sporadically or fortuitously. It is very necessary that a systematic enquiry should be made by Government or some other agency into the economic conditions of any industry proposed to be taken up, and a practicable scheme prepared in each case.

The Government of Mysore, it is understood, have under consideration a scheme for the revival of village industries and for improving the working of industrial Societies generally.

The formation of new Societies in different parts of the State where there are suitable openings will have to be undertaken cautiously, with the help and encouragement of Government and under expert departmental advice.

Financing and Marketing.

The working of co-operative artizan Societies in India has not been satisfactory so far, with some exceptions. The chief difficulties to be surmounted are the indebtedness of the artizans, the lack of organization among them, and marketing difficulties. In spite of the not very hopeful experience of the past, co-operative industrial Banks or well organized urban Banks are generally considered to be the best agencies to meet the financial requirements of rural and cottage industries satisfactorily. It is recommended that co-operative institutions should be established to finance rural industries on a larger scale than at present.

Attention may, in this connection, be drawn to the Report of a Committee appointed by the Government of the United Provinces, with Sir S. N. Pochkhanawalla as Chairman, to study the problem of industrial finance as a whole and make recommendations. The Committee has divided the industries capable of development into three categories, major, minor and cottage industries. As regards cottage industries, which are alone within the reach of any help which can be given by the co-operative movement, the Committee's proposal is that a Financing and Marketing Company be formed with a capital of Rs. 5 lakhs, which must be underwritten by the Industrial Bank. The functions of this Marketing Company will be comprehensive. It will grant aid to artizans, help them with advice from time to time regarding the requirements of the market, supply them with raw materials on credit, purchase their products, open branches and stores throughout the Province, push forward the sales of their products, and render practically every sort of aid they may require.

So far as the Mysore State is concerned, the industries likely to require help in the near future are understood to be so few that there may not be sufficient scope or custom for a joint-stock Financing and Marketing Company on the lines proposed by the Pochkhanawalla Committee.*

The Apex Bank with its large surplus funds should find it possible to help industrial Societies to a larger extent than now. The idea that it might be possible for the Bangalore Central Co-operative Bank (which is now

Vide evidence of the Director of Industries and Commerce in Mysore.

a "Central" institution only in name) to carve out a place for itself and develop as a financing institution for industrial co-operative Societies in the State, was put forward by one of the Directors of the Bank during his examination. The idea is one that seems worthy of consideration.

The provision of adequate marketing facilities is a most important matter, and requires continuous and systematic attention from the Department of Industries and Commerce.

Weaving (Textile Industry).

On account of its economic importance and the number of persons it supports, the weaving industry comes next after agriculture. "The handloom industry of India is still of great importance in the national economy, and has, up to the present, shown remarkable vitality in the face of competition with factory products. It is likely to remain the principal form of village industry, and there is no immediate reason to fear its decline."* The work turned out by the handloom weavers varies from the commonest to the finest stuffs. The earnings of weavers have in recent times been seriously diminished by the competition of the mills, the introduction of the fly-shuttle loom, and the importation of foreign goods. All this has made it very difficult for the weaver—steeped as he is in debt, as well as illiterate and ignorant of market conditions—to find a market for his cloth or otherwise to make the best use of his skill. The lowering of prices and the general depression have further affected the sale of his articles.

It is not surprising that the weaving industry is showing a strong tendency to decline. If it is to survive the increasing competition and continue to afford to the artizans a reasonable profit for their labour, if weavers as a class are to be freed from their hopeless and stifling dependence on the middleman for credit and for sale of their products, this can only be done by suitable organization, special financial and marketing help, and competent technical and expert guidance.

Much had been expected in all these directions from the co-operative movement; but the result so far has been negligible. The ordinary village credit Societies naturally cannot finance the industry on any adequate scale. Special Societies for weavers have been formed for supplying the members with the credit required, for purchasing for them the requisite raw material, as well as improved

* Royal Commission on Agriculture, Report, p. 569.

looms and other implements, and, also, for arranging for the sale of their finished products. Unfortunately, most of these special Societies in Mysore are doing little, if any, work, and their condition as a whole can only be described as very unsatisfactory. Their number as well as membership is steadily diminishing. Far from serving their original purpose, they have degenerated for the most part into mere credit institutions for advancing small loans to weaver members, and even this function they do not always efficiently discharge.

Members, also, are not always loyal to their Society; and it is not an uncommon thing for a man, when in need of more money than the wages paid to him, to sell the article produced to a shop-keeper instead of handing it over to his Society.

Weavers' Societies can only be rehabilitated by special measures of help on the part of Government. In the year 1919, as part of a scheme for the development of the weaving industry in the State, the Government placed a sum of Rs. 50,000 at the disposal of the Registrar to be advanced to co-operative Societies for purchasing yarn and other materials and for making suitable marketing arrangements. But very few of the Societies took advantage of the subvention, which was afterwards reduced to Rs. 10,000. An attempt is being made to assist the Bangalore Weavers' Co-operative Society by the grant of an easy loan, the supply of technical advice, and an improvement of the management. Quite recently the Apex Bank has given a cash credit of Rs. 40,000 in favour of the Society; and, in addition, the Government have sanctioned the Registrar's proposal to grant to it a subvention of Rs. 100 per month, and have ordered the deputation of a Weaving Inspector to help the members of the Society with advice and guidance. Among other directions in which the State is helping the industry are the granting of loans on easy terms, the opening of training schools for weavers, the introduction of new methods of weaving, and of improved looms on the hire-purchase system, the teaching of scientific methods of fast colouring, and the supplying of new ideas for patterns. The key to the problem lies in the supply of sufficient raw materials, the profitable marketing of the products, the guaranteeing of the quality of goods, sound management, and adequate funds. All these requirements indicate various practical difficulties of organization and supervision, which cannot be met except by the formation

of a Central Society, and provision for expert advice and guidance.

It has been suggested that Weavers' Societies suffer by the entry of merchants into them as directors, furthering their own interests at the expense of the poorer members. Membership should certainly be confined to professional weavers only, merchants being excluded. The position is different where men of influence and capacity from among the community itself come forward, as they are beginning to do, to guide and assist their fellows. Ultimately, indeed, no scheme of amelioration has a chance of success unless the leaders of the community actively co-operate in the process.

Arts and Crafts Depot.

The Industries Department maintains at Bangalore an Arts and Crafts Depot, which stocks articles produced both by Government agencies and by Societies and others. It is doing good work in the matter of obtaining sales and procuring orders and also giving publicity and advertisement to the institutions concerned.

Sericulture.

Sericulture is next in importance to handloom weaving as an industry widely followed in Mysore, and more or less peculiar and adapted to local conditions. It is, however, suffering from the persistent competition of cheap foreign silks in the Indian market, and the inadequate protection granted to indigenous silk and silk fabrics. The Mysore Government have been making substantial grants every year with a view to bring down the cost of production of local silk, chiefly through the supply of disease-free seed to sericulturists.

The Sericultural Department gives material assistance and advice to the Societies in the preparation and distribution of disease-free layings, in *chawki* rearing, in training members in sericultural technique, in the marketing of cocoons, in maintaining accounts, in recovering dues from members, and in other ways.

There were 20 Sericultural Co-operative Societies at the end of 1934-35, but 6 of them were not working. The Societies are not self-supporting, and their resources are supplemented by small loans from Government.

The work of these Societies is hampered by the inadequacy of funds and the lack of technical guidance and help. What they most need is said to be the services of a technical worker, one for each Society, on Rs. 25 to Rs. 35 per month, for carrying on the necessary technical operations. Increased sales are expected to meet a part,

about a half, of the cost; the balance will have to be contributed by Government.

The cocoons prepared by the members of Societies are purchased by the Government filature and by private parties for the production of raw silk. A desirable extension of co-operative activities would be afforded by arrangements for the joint marketing of such cocoons and, where possible, for joint reeling.

Reeling is at present carried on by small individual capitalists, who sell the raw silk to weaving Societies and others. In order to enable the work to be carried on at a profit, it seems worth while to investigate the possibility of organizing co-operative reeling Societies, aided with Government funds and supervised by the Sericultural Department. In this way it may be eventually possible to bring about some co-ordination between the three allied industries.

Other Industries.

It may be mentioned that there were at one time a few combined agricultural and industrial Societies for hulling paddy, crushing sugarcane, manufacturing jaggery, and the like. The rice-hulling and jaggery manufacturing Societies did not show good results, mainly owing to mismanagement and the absence of the true spirit of co-operation, as found by the Samaldas Committee.

Apart from cottage industries which have already been dealt with, large scale manufacture requiring much capital and special marketing arrangements does not seem adapted for co-operative enterprise under present conditions in Mysore.

5. *Stores.*

The consumers' movement has made appreciable progress, chiefly in the cities of Bangalore and Mysore, and also in connection with employees of the Police, Military and Railway Departments and of the Mills. The field for expansion in other localities and directions appears for the present to be limited.

In the case of villages and small towns, a system of joint purchase on indent is found more suitable than a regular Store, and is worked successfully in some Societies.

There are at present 84 consumers' Societies, with a membership of 17,488 and a working capital of Rs. 22·18 lakhs; and their turnover during 1934-35 amounted to

Rs. 27 lakhs. Many of these have banking sections attached to their Stores. Others are really non-agricultural Societies running Stores as part of their work. Very few are Stores pure and simple.

Special difficulties.

Stores as a rule can only be successfully worked in areas with a fairly large population. Even there they have often considerable difficulty in making a headway. They have, in the first place, to compete with old established concerns. They are further handicapped by restrictions as regards credit sales, which are not observed by the market trade. Expert management coupled with a large turnover is essential to success; but this is only possible in the larger towns, and in Societies where either competent paid managers, familiar with the conditions of the markets, can be entertained, or there are members who are not merely enthusiastic advocates of co-operative methods, but are also able to organize and conduct efficiently the business of buying and selling. The ill-success of many Societies has been due chiefly to incompetent management and to an absence of loyalty on the part of members. The relatively heavy rent and establishment charges form another handicap to success. Stock-taking is difficult and cumbersome. Articles stored are liable to rapid deterioration and wastage; and perishables must be quickly disposed of to avoid loss. Prices are subject to fluctuations. Latterly the general fall in prices and consequent reduction of profit has led to the ill-success of many Societies.

Combination with banking.

Apart from the fact that it is not always possible in rural areas to keep banking and trading apart, it is found to be advantageous in small Societies to combine supply with credit when there is not on either side enough work to justify a separate organization. It may be that on principle there is something to be said against Stores Societies doing banking work in addition. The two operations are essentially distinct; by combining them, the interests of both are apt to suffer, while work of either kind cannot be done as efficiently when combined as when it is independently carried on. There are, however, other considerations which make such a combination advantageous, especially in the earlier stages. Often there is not enough capital to run a Store by itself; and the receipts are at first insufficient to meet the whole of the working expenses. In such circumstances urban Store Societies have occasionally added a banking section with a view to attract capital, while credit Societies by adding

a store section have found the combination actually helpful to the Store by providing a ready-made clientele. But when the store section has established itself as a growing concern with adequate capital, there is every reason why it should separate itself and arrange for expert management. It must not be ignored that there is risk in a credit Society which holds large deposits from non-members employing the same in the business of a Store. And, on the other hand, the appropriation of the profits on sales to swell the dividends on share capital is a temptation not easily resisted.

Business.

The proper regulation of prices is an important part of the business management of a Store. The usual practice is to add to the cost price of articles cart-hire, profit at so much per rupee, and an allowance for depreciation. If goods are sold at a fixed rate of profit over cost price, they may sell rapidly when market prices are higher but will be left as dead stock when market prices become lower. In fixing prices, therefore, regard should be had to the current market rates, from which they should not ordinarily vary to any marked extent, and allowance must be made from time to time for fluctuations in prices. The aim should be not simply to sell at cheaper rates than the market,—they must not, in fact, be much cheaper,—but to provide articles of better quality, in other words, to give full value for the money paid.

Co-operative Stores must buy wholesale, and buy more directly from the sources of production than they do now. Only articles in common demand and likely to find a ready sale should be stocked. Purchases should be made cheaply during or shortly after the harvest. It will usually be preferable to buy things at intervals during the year, rather than once for all.

Purchases should be made by a properly selected trade sub-committee, the members of which have some knowledge of where, when, and how to buy the articles required.

Sales may be extended to non-members if necessary to secure bulk purchases, or where operations, if confined to members, would be uneconomical or unprofitable.

Cash sales should be the rule for all; but where credit is allowed, it should be restricted to members, and to the extent of their paid-up share or other assets in the Society. The profits derived from Stores should, after the prescribed allotment to reserve and after paying a reasonable preferential rate on shares, be disbursed entirely on custom in the shape of rebates to members.

Stock should be taken of goods frequently—at least twice a year in the case of cloth, and once a quarter in the case of foodstuffs. Depreciation should be duly allowed for; but losses due to actual deficiencies in stock-taking should be debited to the profit and loss account.

In institutions which combine credit business with Stores, members wishing to make purchases on credit are required to go to the credit department, obtain the requisite credit, and make their purchases for cash. Where credit and trade are thus combined, it is desirable to keep the accounts separate.

A co-operative Store is not an ordinary trading concern working for profit. Its advantage must be brought home to members, not through the declaring of profits on capital or the charging of unduly low prices, but rather through the encouragement to custom afforded by a periodical return or rebate proportioned to their purchases.

Central Store.

A Central Store is an affiliation of primary consumers' Societies, or an apex wholesale Society. As such, it should be built up by the efforts of co-operators, and not left to individuals to initiate or exploit. Individuals should be eliminated from membership, all the shares being held by the Societies themselves.

Considering the number of consumers' Societies in existence, there would seem to be obvious advantages in having one strong central wholesale organization, which could make purchases at source in large quantities for supply to small Societies. If buying was done by such a central organization, the advantages of wholesale purchase could be shared in by all the affiliated Societies, reliable and timely information would be available regarding goods, prices, seasons for purchase and so on, and the cost too of articles sold could be materially cheapened. There are possibly some drawbacks (such as the slight addition to cost incidental to purchases having to be made through another organization, the likelihood of the Central Store not being as complaisant as a private trader in taking back unwanted goods, and so on); but they are all more or less trivial.

It must be admitted, however, that there is no insistent demand at present for a Central Society, while the need for the large capital and expert management required will remain as an obstacle in the way of its near realization.

Even as it is, instead of each Society making its own purchases and fixing its own prices independently of the others, it would be well for them to make joint arrangements for making wholesale purchases of their requirements from a common source, such as sugar from the Mysore Sugar Factory, and cocoanuts, ghee, coffee, and other requisites direct from the producing agencies on joint indents, and thereby obtain a material reduction in prices.

Co-operative production and distribution.

Store Societies may, if funds permit, produce several of the goods which they sell, such as oil, flour, fresh coffee powder, ghee, and so on, establishing their own plant for certain purposes (as has been done, for instance, by the Malleswaram Stores and the Bhadravati Co-operative Society). It has even been suggested that they may prepare wholesome comestibles and run restaurants for the service of their constituents.

There is, in fact, nothing to preclude the combination of different forms of co-operation which benefit the same body of consumers. As observed by the Burma Committee on Co-operation, it would be to stop half-way and leave the work unfinished and indeed inefficient, if consumers' Societies confined themselves to distributing co-operatively the wealth which could continue to be produced under the competitive system. As soon therefore as consumers' Societies have reached a certain stage of development, they may well begin to produce the articles they require, and eventually, by controlling the products in all their stages, reach the final limit of cheapness.

There are very few purely producers' Societies at present. With a larger organization of producers' Societies, it might be desirable to have a direct link between them and consumers' Societies.

6. *Building Purposes.*

The provision of suitable housing accommodation for the poorer classes and persons of limited means, especially in urban areas, is everywhere looked upon as an important branch of nation-building activity. The housing movement has made great progress in various parts of India, especially the Bombay Presidency, which now stands foremost in this field of co-operative activity. Co-operative house-building was taken up early enough in the Mysore State, but the progress achieved has been

slow and unsatisfactory, and has not come up to expectations.

There are at present 25 House-building Societies so called. But they are in fact merely credit institutions, their work being limited to the granting of loans for the construction and improvement of houses to the exclusion of other purposes; they are themselves not undertaking or otherwise co-operating in the actual construction of buildings. Their membership, which is at present only 2,838, comprises mostly persons of the middle classes with limited means. There is no particular provision so far for the co-operative housing of the working classes,—a task with which Societies cannot ordinarily be expected to grapple without special help and facilities. The work of slum clearance and re-construction is one mainly for local bodies; but the services of Housing Societies may often be requisitioned with advantage in the building of cheap sanitary huts and houses.

House-building Societies would be more true to their designation and proper purpose, and much more useful to their members and to the community at large, if they could take direct and active part in constructional work. A lead to some extent in this direction has been given by the Bangalore Housing Society. Societies of the kind in question should help members with type designs, as well as assist in the preparation of plans according to individual tastes and requirements. They should be able to procure building materials cheaply, and where possible they should join with other Societies in ordering or manufacturing them. They should also in time take up the work of construction for their members, whether through their own agency in the case of Societies which can employ such agency, or through reliable contractors engaged on approved rates. Where they have adequate funds and proper expert help, and especially where they have themselves undertaken the supply or manufacture of house-building materials, they may well build a certain number of model houses at their own cost on well considered type-plans and either lease them to members or sell them on the instalment system. In the latter case, the periodical payments may be slightly higher than the rent, and sufficient to make up the full amount of price in from 20 to 25 years.

The instalment or hire-purchase system referred to above is that which is most suitable to the case of poorer persons who cannot provide any portion of the outlay

required as work is in progress. In the tenant co-partnership system, which is said to be very successful in the West, the occupant does not get the ownership, but cannot be ousted as long as he pays the rent; and out of the rents collected, after deducting expenses, depreciation, etc., the balance is returned to him when he ceases to be a member. This system is apparently not adapted to Indian requirements, except perhaps in large cities and populous centres. People here desire to own their houses. What is required is an arrangement for providing houses on condition of repayment of the cost with interest within a period of 20 to 25 years.

The equated system of repayment should be generally adopted. Under it repayments in the initial years are considerably smaller than under the alternative system; and its adoption would enable many who cannot make the big repayments to share in the advantages offered by the Societies. A rebate of half per cent below the rate charged should be granted to members, and by Government to Societies, for payments made in advance. Repayments should be allowed either monthly or annually.

The capital required for the steady and systematic prosecution of house-building activities even on a moderate scale over the different urban areas is bound to be very large—probably in the neighbourhood of Rs. 50 lakhs,—and cannot be provided by the ordinary Societies. Central financing institutions cannot lock up their funds in long-term loans of the kind that would be required, and cannot obtain their usual rates of interest on loans made for house-building. It will hardly be practicable, even if advisable, to authorise individual Societies to raise their own debentures; besides the difficulties and complications involved in such multifarious issues, the bonds themselves, even with a Government guarantee of interest, are not likely to be popular.

A Central House-construction Society would have greater facilities in this respect. But the utility of such an institution has to be considered primarily from the point of view of the functions it can properly discharge in regard to constructional activities. Housing is essentially a local problem; and it may be said that local Societies are generally better situated with regard to the mode of tackling it. Prices, wages, and other conditions also vary in different localities; and a Central Society is not so well adapted to deal with them. On the whole, though there are no doubt various advantages in

having one Central institution concerned both with housing activities and finance, (such as the ability to employ an expert technical staff, and the opportunity for making considerable economies through wholesale purchases and manufacture of materials), the scheme does not seem to be quite practicable at present.

But at the same time, having regard to the number of House-building Societies already at work and the increasing extension of such activities in various parts of the State, and also to the large amount of money required for their needs, it seems necessary to have one Central institution entrusted with the function solely of providing the requisite long-term finance. If the Apex Bank can undertake this in addition and without prejudice to its ordinary functions, it may be entrusted with the duty ; if not, the question of forming a separate Central financing institution will have to be considered.

It is now generally recognized that State assistance is not only essential, but proper, as a legitimate contribution towards the solution of the urgent problem of housing and the relief of congestion. The Mysore Government have in fact offered to help in this way Societies, rural or urban, which may be formed for house-building purposes, provided they have sufficient financial stability and are likely to benefit a fairly large number of people. In accordance with this policy, the Government have placed a cash credit of Rs. 1½ lakhs at the disposal of the Apex Bank at 4½ per cent interest, for being advanced to House-building Societies in the mofussil, and have also sanctioned a loan of Rs. 1½ lakhs at 5 per cent interest to the Bangalore Housing Society, which lends to its members at 6¼ per cent. To enable Societies to make full use of such assistance, it is necessary to lower the rate of interest to members to not more than 6 per cent at most and to extend the period of repayment up to 20 or 25 years. We recommend that the Government may be pleased suitably to alter the terms of their loans to allow of this being done.

The laying out of small cottage sites on an adequate scale is a recognized necessity in all growing towns and cities; and without systematic provision in this respect the proper development of house-building activity is impracticable. The law should be suitably amended so as to permit of the compulsory acquisition, on behalf of co-operative housing Societies, of land required for this purpose.

Local Bodies likewise may do a great deal to further the work of housing Societies by helping them to obtain sites in suitable localities at reasonable upset prices and in compact blocks, and by special attention to the formation of streets and conservancy lanes, the provision of drainage, water supply and lighting, and other recognized municipal services. Where the work undertaken by a Society is on a large scale, free technical assistance should be given by the Public Works Department.

7. *Labour.*

The potentialities of co-operation for the labouring classes are being realized and worked out in the Madras Presidency. Several Labour Societies have already been formed there with the object of taking labour contracts direct from Government, Local Bodies and individuals, thereby securing for their members large profits which would otherwise have gone into the pockets of contractors. The members, who include road-makers, wood-cutters, cartmen and field labourers, are the shareholders, and provide the necessary capital supplemented by loans from co-operative Banks. These Labour Societies are no doubt under a handicap when competing for contracts with professional contractors; but with promises of work from the Public Works Department and Municipal and other Local Bodies, the prospect must be a hopeful one.

There seems to be scope in the Mysore State for similar organizations started and worked under official initiative and with departmental encouragement.

8. *Rural Welfare.*

Some amount of useful social service of the kind associated in people's minds with the phrase "rural welfare" (or its high-sounding equivalent "rural reconstruction") may be and is being done by co-operative Societies. The scope of such service is determined by the provision of law (Section 34 of the Regulation) which enables Societies, with the sanction of the Registrar, to contribute a maximum of 15 per cent of their net profits (after making the prescribed allotment to reserve) to "any charitable purpose". This phrase includes "relief of the poor, education, medical relief, and the advancement of any other object of public utility," (other than one which relates exclusively to religious teaching or worship).

This gives Societies a fairly large margin of discretion, which has been availed of for such objects as the education of the children of their poorer members, the maintenance of libraries and reading rooms, gifts to institutions for poor and needy persons, and the like.

It is to be desired that some at least of the available charity funds should be pooled together and systematically used for some common purpose benefiting the movement as a whole, such as propaganda and education.

Societies may also set apart small sums every year to be utilized for the promotion of the social amenities of their own neighbourhood (as in the matter of radio installations), or to be entrusted to the local Village Panchayats for objects of village improvement. Except in these and similar ways, it does not seem possible for co-operative Societies as such directly to undertake rural reconstruction work to any effective purpose, if they are not to neglect their legitimate functions. The co-operative method has no doubt been sometimes described as the key to rural reconstruction work; but a comprehensive service requires very much more than the limited aid which co-operative Societies can at present give.

The work falls rather within the province of Village Panchayats already functioning all over the State. A noteworthy step in this direction has been taken by the Government in an Order of 9th May 1936. With a view to the adoption of more intensive efforts in the matter of rural welfare, it has been decided that a certain number of villages in each District be selected for special attention by the Development Departments concerned, and various items of work (settled with reference to local needs and facilities and to the funds available) taken up and carried out under proper official guidance and responsibility, and with suitable money grants, so that these villages may eventually serve as examples of what good Panchayat administration should be.

CHAPTER IV.

Financing Institutions.

1. The Co-operative Edifice.

A fundamental source of weakness in any organization is the lack of coherence between its various parts. The edifice of Co-operation is in theory, and should be as far as possible in actuality, a well-knit, closely co-ordinated structure bound together by common interests and energized and governed by common aims. At the base will come the primary credit Societies with little or no share capital but with unlimited liability, which are associations of borrowers and non-borrowers, consisting of the residents of a locality who know one another and may naturally be expected to take interest in one another's affairs. These shade off into associations with limited liability, consisting of persons drawn from a wider circle, and held together not so much by mutual knowledge and trust as by the bond of a common economic interest, in order jointly to carry on enterprises requiring a substantial amount of share capital. The primary Societies of both types in a sufficiently large and compact area will federate themselves into a regional institution, called a Central Bank, with a view to its helping them with finance and advice, and acting as a balancing centre for them. The Central Banks in their turn will become affiliated to a single Provincial or Apex Bank, which will not deal directly with the primary Societies, but act as a financing agency and balancing centre or clearing house for the Central Banks, forecast and arrange for provincial requirements as a whole, and link up the co-operative credit organization with the general money market and commercial Banks.

While this is the theoretical conception, actually the various parts of the structure have come separately into existence, and function more or less independently of one another.

The need for a Central financing institution for Mysore was not felt till 1908. Most of the earlier Societies were of the non-agricultural credit type, able for the most part to raise their own funds. Only with the development of agricultural credit Societies did the

necessity arise for a special agency to finance them. The Bangalore Central Co-operative Bank was established in 1908 to take up this function, along with the financing of individuals. It was followed by a number of District and Taluk Banks and Federal Banking Unions, and, lastly, by the Mysore Provincial Co-operative Bank in 1914.

2. *Federations or Unions.*

Federal Co-operative Banking Unions, which were started for financing affiliated Societies and for general supervision and propaganda, have not fulfilled their purpose to any satisfactory extent. The area of their operation being limited, they were handicapped for funds, and were unable to undertake work involving expenditure. Ultimately the Government sanctioned their being wound up as financing institutions. One Union has had its registration cancelled, and the accounts of the rest are being adjusted prior to similar action being taken in their case.

3. *District Central Banks.*

The District Central Banks, of which five were registered in and subsequent to 1919, have also not worked satisfactorily. They either did not start work or did not function properly, and became practically moribund. Their failure must be attributed mainly to inefficient management and inadequate supervision, as well as to the difficulty found in recovering the loans advanced to primary Societies. Having proved unequal to the task of financing the primary Societies, they have been wholly displaced by the Apex Bank. These Banks are now in course of being wound up.

4. *Bangalore Central Co-operative Bank.*

Both the Bangalore Central Co-operative Bank and the Mysore Provincial Co-operative Bank were provincial organizations working on similar lines and for similar ends. To remove the anomaly and to prevent mutual competition, each was given a separate jurisdiction within which the other was not to work. But the arrangement did not prove satisfactory. The Mysore Co-operative Committee of 1923 considered that one strong Central financing institution, with branches at district headquarters, would be sufficient to meet the needs of all

primary Societies, and suggested (among various alternatives) that the two Banks should be amalgamated. The Bangalore Central Co-operative Bank was opposed to amalgamation, and preferred to confine its activities to the financing of individuals. It was therefore permitted in 1925 to be converted into an urban Bank with a provincial jurisdiction, dealing solely with individual shareholders throughout the State, with the restriction that, to avoid competition with primary Societies in rural areas, it should not grant loans below Rs. 2,000 to individual shareholders outside the Bangalore City.

5. *Provincial Co-operative Apex Bank.*

As it was considered necessary to have a properly organized Apex Bank to attend to the financing of the primary Societies in the State, the Mysore Provincial Bank, which originally shared that task with the Bangalore Central Co-operative Bank, was converted into an Apex Bank. While endeavouring in that capacity to subserve the financial requirements of the movement as a whole, it also exercises the functions and powers of a Central Bank. In the absence of any other Central Institution, it is now the sole agency for the financing of Societies, giving them loans directly without the intervention of the District Banks.

In connection with the arrangements referred to above, the Government had directed that the assets relating to Societies belonging to the Central Co-operative Bank should be transferred to the Apex Bank on a valuation to be made by Arbitrators. Effect has not yet been fully given to this arrangement though more than ten years have elapsed. It is time the matter was settled once for all in the interests of all the institutions concerned, if necessary by its being referred to a small Board consisting of the Registrar as Chairman and one representative of each of the two Banks.

6. *Future Policy.*

Opinion as to future policy is for the most part in favour of a continuance of the present arrangement. It is true that an Apex Bank has for its primary object the direction of provincial finance by the control and support of Central Banks, and that, strictly speaking, "it must confine its dealings with co-operative institutions to

Central Banks, and leave to them the work of dealing with Societies."* It need not also be denied that there are distinct advantages in having a limited number of Central Banks, one for a group of Districts if not for each administrative District, which will have direct and intimate touch with the primary Societies in their respective areas and will be able to operate with full local knowledge and some final responsibility. But in the circumstances in which the District Central Banks of the past have failed to justify their existence, and in the absence of any present necessity for such intermediate agencies, there seems no reason why the Mysore Provincial Apex Bank should not be able to carry on as sole financing agency for the primary Societies in the State, with the aid of branches to be established by it in the more important centres (beginning with the Mysore City) as the need arises. Each branch should be placed in the charge of a competent full-time paid Secretary or Manager. Such an arrangement will conduce to economy in management, and incidentally facilitate the transference of funds. The absence of local knowledge and the necessity of having to devolve responsibility on agents are no doubt disadvantages; but they may be minimized by associating with the work of the branches local advisory committees, composed partly of the elected representatives of affiliated Societies and partly of members of such Societies nominated by the directorate of the Apex Bank. The local committee may be invested by delegation with powers of supervision, including the power to sanction loans up to a limited extent.

After some experience is gained of the working of these branches, the question may then be considered of converting them into autonomous Central Banks, while retaining the essential features of a co-ordination of business functions with the Apex Bank.

7. *Central Institutions generally.*

Functions.

The Provincial Bank, as already observed, is performing the double function of a Central Bank and of an Apex Bank. In the one capacity its aim is to raise funds for supplying the needs of primary Societies, and, in addition, to balance the funds of the Societies as a whole, by making the surplus resources of some available for others suffering a deficiency. In the other capacity, its

* *Per* Maclagan Committee.

main business is to co-ordinate the working and control of the finances of the co-operative movement on a provincial basis.

In order that the movement may function efficiently and profitably, it is necessary that the connection to be established between it and the money market should be brought about through the Central financing institution. Balancing being performed by the Central institution and by it alone, primary Societies (including urban primary Banks) should be forbidden to have direct financial relations with each other. Uncontrolled interlending as between Societies is considered to involve an interlocking of liabilities which may well lead to trouble.

Membership.

Of the three possible types of Central Institutions, that in which the shareholders are solely individuals was never attempted to be formed in Mysore, and has practically disappeared in other parts of India. The second type, in which membership is confined to Societies, is in theory the most suitable and desirable, and represents the ideal to which the financial structure of co-operation must aspire. But its successful working requires trained and skilled management, which at present cannot be provided solely from the representatives of primary Societies. It is therefore generally recognized that the third or mixed type, of which the membership includes both individuals and Societies, is the best fitted for existing conditions, and this is the type of Central institution which is predominant. In this mixed type the member Societies are assigned a certain proportion of the shares (usually more than half) and given suitable representation on the committee of management, and the services of individual sympathizers are also secured for the institution, by admitting them as shareholders. The share capital is as large as possible consistently with economical working in order to reassure the public and to attract deposits. Provision is made for reducing to a minimum the number of non-working individual shareholders and for giving preference to new Societies in the allotment of additional shares. Voting is by individuals and not by number of shares; and proxy voting is not allowed. There should be a rule definitely disqualifying representatives of defaulting Societies from voting at general meetings.

Loans to Individuals.

The *raison d'etre* of a Central institution is to finance the Societies which are affiliated to it. That being so, the Provincial Bank should confine the grant of credit to Societies, leaving individuals to obtain their requirements

from primary urban and other Societies, which already exist for this very purpose. Where a Central Bank has developed from an ordinary urban Society, it is intelligible that it may have to continue for a time the practice of granting advances to individual shareholders. There is no such justification in the case of the Mysore Provincial Bank, which has always been a Central financing institution. In the proposals which led to its conversion into an Apex Bank, one of the nine "*principles*" the adoption of which was considered necessary by the Samaldas Committee was the restriction by the Bank of loans to Societies only. The view that the function of a properly organized Apex Bank is "to attend to the financing of the primary Societies in the State," was accepted by Government in their Order of 30th March 1925; and the direction that "the Apex Bank should restrict its loans only to Societies" was reiterated in a later Order of 6th December 1927. One of the rules issued by Government under the Regulation distinctly lays down that "no loan shall be granted by a Central Bank to any member other than a registered Society except with the general or special sanction of the Registrar." It cannot be said that there is any dearth of urban Banks and other primary institutions capable of meeting the credit needs of individuals. That being so, there is no good reason—apart from the inadequate one of a possible reduction of profits—why the Apex Bank should not in future confine itself to its proper and legitimate function of financing the primary Societies.

Loans to non-members.

On the view just expressed there is all the less difficulty in disposing of the question, brought up before us on behalf of the Apex Bank, why the Bank should not be permitted to lend money to non-member depositors on the security of their deposits.*

Such loans are expressly allowed by the Madras Act, but are not permitted in other provinces like Bombay and Burma; nor are they permitted by the Mysore Regulation. Whether a change in the law is required is a matter to be considered on its own merits and in the light of local conditions. As at present advised, we do not think a change is called for.

A co-operative Society is under no obligation to its depositors in the matter of supplying them with credit;

*Loans to the extent of Rs. 1,11,857 were issued by the Apex Bank to non-members during 1934-35, on the security of their fixed deposits, the amount outstanding as on 30th June 1935 being Rs. 1,71,168 (not including overdrawals on current account to the extent of Rs. 28,412). The corresponding amounts in the case of members were Rs. 24,465 and Rs. 46,901 (which does not include overdrawals, Rs. 5,737).

its obligation is to return the deposits on maturity, paying the periodical interest at the stipulated rates. People deposit their money with a Society because they think it is safe and worth while to do so, and not under any expectation or understanding that an advance on the security of it will be forthcoming when required. The grant of loans is a matter in the discretion of the management, and in other institutions in the State is never made to non-members, whether depositors or not. It is of course permitted to a Society to *invest* a portion of its funds outside the movement; but this is a different matter from the systematic grant of credit to non-members.

From the point of view of depositors there can be no real hardship in denying them accommodation on the security of their deposits. It will usually be possible for them to raise money elsewhere, if need be by pledging these deposits as security with a commercial Bank. It is open to Societies, at the same time, to accommodate depositors, as a matter of discretion and if their resources permit, by returning a portion of the deposits with a reduction in the interest payable.

From the point of view of the Apex Bank, with which we are mainly concerned, it is no advantage to it, with its large idle funds, to attract superfluous deposits by the offer of adventitious inducements. The practice in question is said to have been adopted by the Bank to meet the severe financial crisis of 1922-23; its legality, in the face of the clear provisions of Section 29, was very properly questioned at the general body meeting in 1928; but it was thought it could be regularized by the passing of an enabling by-law, to which the approval of the then Registrar was procured, but without the matter having been brought before Government and their sanction obtained. The fact having since come to the notice of Government, they have definitely ordered the discontinuance of the practice. It only remains to add that, the temporary conditions of crisis which induced its adoption having ceased to exist many years ago, and the present position of the Apex Bank as to funds being one of comparative prosperity, there is no reason for permitting its revival either under an amendment of Section 29 or by a special exemption under Section 47.

Affiliation.

In a properly integrated co-operative system, there must be the closest bond of common interest between the Central and the primary institutions. It is well to keep this ideal in view even where the integration is imperfect.

A working association of units, based on a practical identity of interests, may itself be the condition of achieving an increasing measure of structural unity. In this view there can be no doubt that affiliation, which has hitherto been optional with Societies and generally induced by present expectations of obtaining credit, must be placed on its proper basis as a necessary condition of mutual benefit and community of interest.

The fact that, out of nearly 2,000 primary Societies in the State, less than one-half are affiliated to the Apex Bank, while the number of Societies which have derived financial help from it in the shape of loans is much smaller still, points to an unsatisfactory state of things.

On the one hand, all primary Societies, rural and urban, should be required to affiliate themselves to the Apex Bank, and to invest their surplus funds and a substantial portion of their unutilized reserves to the extent of one-third with that institution. The latter should, for its part, allow these investments to be used as fluid resource, provide suitable cash credit on the security of the investments, and otherwise grant prompt credit on relatively easy terms to the permissible extent, and should afford to the affiliated Societies such facilities generally as can be obtained from joint-stock Banks. All this is in addition to the distinct advantage of representation on the directorate of the Apex Bank.

Note.—Mr. Ranga Rao is of opinion that urban Societies should not be compelled to affiliate themselves to the Apex Bank, but that, however, if they require any finance, they must go to the Apex Bank, in which case they should necessarily affiliate themselves. Mr. Krishna Rao agrees with him.

Management of Apex Bank.

So long as the surplus funds of primary Societies are held in deposit by a Central institution, it is essential, as a safeguard against these funds being used speculatively or in a manner injurious to their interests, that their representatives should have a deciding voice in its management. These representatives should, of course, be directly elected by the Societies themselves as a body. The Board should have power to co-opt a few persons with special knowledge, who would have no votes. Where transactions are heavy, it will usually be desirable, for the speedy and efficient despatch of business, to appoint a small executive committee, or one or more sub-committees, consisting mainly of resident members, to attend to the routine work, to check the daily accounts,

to scrutinize loan applications, and generally to work up questions to be placed before the full Board.

Revision of Directorate.

The management of the Apex Bank is now vested in a Board consisting of a President and 12 Directors, all elected by the general body of the Bank at the annual meeting. Beyond a by-law requiring that not less than six of the directors shall be representatives of Societies, there is no definite system underlying the apportionment of seats. Nor is the total number of places quite sufficient to allow of a suitable representation being given to all the interests concerned. There are at present no explicit rules to regulate the conduct of elections to the directorate. It is desirable that the omission should be supplied.

It is necessary, in our opinion, to raise the strength to at least fifteen, including the President. Five places should be reserved exclusively for representatives of rural Societies, and five for representatives of urban Societies, both credit and non-credit; and two for representatives of individual shareholders. This will leave—besides the President, who will be elected by the general body,—two places; these, in view of the ultimate responsibility of Government for the financial stability and efficient working of the co-operative organization as a whole, not to speak of the substantial financial and moral support to be expected from such a source, should be filled by nomination by Government. One of the directors so nominated may with advantage be the Comptroller.

The constitution of the directorate of Central institutions should be defined in outline in the Regulation itself, leaving details to rules. One such rule should provide explicitly for the automatic retirement every year of a third of the directors by rotation.

Need for revision and reform.

The need for a change in the composition of the directorate of the Apex Bank, coupled with a thorough revision of staff and better arrangements for supervision and audit, is forcibly illustrated by the fact that a series of grave irregularities, pointing to the systematic manipulation of accounts and misappropriation of funds amounting in the aggregate to a little over Rs. 40,000, was only brought to light towards the latter part of 1934, though they had been apparently going on unchecked for a number of years.

We have referred to the matter mainly to emphasize the need for a thorough reform of methods and agencies. It is true that the business of co-operative finance is simpler on the whole than that of a joint-stock Bank, and that large urban Banks and even some Central Banks

may (as shown by experience) be competently managed by retired officials, traders, lawyers and professional men. But the management of a Provincial Bank calls for practical training and financial knowledge and experience of a higher order. The services of trained bankers on the directorate should, where possible, be secured by co-optation if not by election. The Indian Central Banking Enquiry Committee considered that the executive head of a Provincial Bank should be a thoroughly trained banker with a competent knowledge of the principles and practice of co-operative credit. In this opinion we fully concur, and we recommend that early steps should be taken to engage on a suitable salary a duly qualified and capable person as Manager. It is essential also to have a qualified Auditor permanently on the staff; such an appointment is understood to have since been made. With the large number of hands employed in the Apex Bank and the fairly attractive grades of pay given, it ought to be possible to recruit a better type of officials than many of those heretofore entertained. It is not superfluous to add that the directors, as guardians of the interests of the general body, are expected to act under a sense of collective responsibility, and look into important matters themselves, instead of leaving them to one or two individual directors or the Secretary or the President. They are expected, in particular, to consider regularly the audit reports, and take immediate steps to rectify defects brought to their notice and introduce checks and safeguards where required.

8. *Banking Facilities.*

Incidental to its primary functions as a financing and balancing centre, the Apex Bank accepts deposits from co-operative Societies and the general public, and deals moreover in current account with the latter. It collects dividends from companies and periodical interest on stocks and securities, and collects the pay and pensions of public servants. It does not discount bills or do other outside banking business at present.

As will be more fully explained in the Chapter on Long-term Finance, the Provincial Bank and other co-operative institutions should confine themselves to borrowing (by way of deposits and otherwise) and lending, for short and intermediate terms, leaving long-term finance entirely in the hands of the Land Mortgage Bank. The

issue of long-term debentures extending for more than ten years is also the special function of the latter, and should be left to it. We have already made a separate recommendation with regard to the provision of long-term finance for House-building Societies through a Central institution.

So far as primary Societies are concerned, they should seek loans and cash credits from the Apex Bank. But the Apex Bank, especially if it receives monies for comparatively short periods and lends for fairly long periods, and so is dependent on fresh deposits for repaying those matured, may well look to the Bank of Mysore, which is a State-aided Bank, for special help of the kind given by the Imperial Bank and the new Reserve Bank in British India. It is understood that the Bank of Mysore, besides giving advances against Government paper and against fixed deposits with the Bank, is prepared to give cash-credit to co-operative financing institutions (with interest charged only on the portion of the cash credit utilized), to discount their bills and *hundis*, and to give them rediscounting facilities; also to provide for the issue of demand drafts by the Apex Bank on local branches with which the latter may have an account. What is chiefly needed is an arrangement with the Mysore Bank for giving adequate accommodation to the Apex Bank, in the shape of a cash-credit on the security, and up to 75 per cent of the amount, of the pro-notes of rural Societies backed by their endorsements. This will enable the Apex Bank to lend to Societies at favourable rates. The bringing of the Apex Bank into touch with an important commercial Bank in this way will also tend to make its methods more business-like.

It is very desirable, at the same time, that the Apex Bank should have the moral backing of Government in the shape of a promise of a definite advance of (say) two lakhs of rupees whenever required. The advance is not likely to be drawn upon save in exceptional circumstances of financial crisis or banking emergency such as occurred in the year 1922-23. But it will tend materially to infuse confidence in the investing public, and strengthen the financial position and stability of the Bank.

9. Central State Bank.

A stage of development will soon be reached at which the co-operative movement must obtain access to a wider

money market than that open to it at present. When the present depression lifts and conditions begin to improve, there will be an increasing demand for short, intermediate and long-term credits from all sides. The needs of agriculturists, particularly in regard to long-term credit, cannot be adequately met by the Bank of Mysore and other joint-stock Banks, and only to a limited extent by the Land Mortgage Bank and its primary Societies. The Government guarantee through which this Bank is able to raise its debentures cannot be extended beyond a certain limit. Large sums will be required every year for the proper financing of House-building Societies all over the State. Special industries like coffee planting will require substantial financial assistance, though not necessarily through the co-operative movement. The systematic development and prosecution of industrial and commercial activities, including the provision of adequate marketing and other facilities for Malnad agriculturists, will itself need an abundant supply of capital.

In order to cope with the many-sided expansion of economic activity that the future will bring, as well as to improve the resources available to the co-operative movement in particular, and, not less important, in order to co-ordinate and conserve the resources of the various financial agencies at work, it may sooner or later be necessary for the Government to consider the desirability of forming a Central State Bank under its direct control and supervision and as an adjunct to its Financial Department. Such a measure, besides ensuring a powerful organized chain of credit for supplying all the needs of co-operative and joint-stock enterprise in the State, will also serve to link up the local financing organizations with the controlled credit policy of the Reserve Bank in British India.

The question, however, is a large one, not directly within our province, and we only refer to it thus incidentally in view of its bearing on the future development of co-operation in Mysore.

PART II—FINANCE.

CHAPTER V.

CAPITAL RESOURCES.

1. Composition of Capital.

The resources of primary as well as of financing institutions consist mainly of Share Capital, Deposits and Borrowings, and the accumulated Reserve. The fee levied from new members on admission is a very minor and unimportant item.

The position in these respects on the 30th June 1935 is given below, as compared with what it was on 30th June 1922 at the time of the inquiry by the Samaldas Committee.

Judging by the figures for all the institutions on the date first mentioned, the paid-up share capital and the reserve fund, which together constitute the owned capital, formed 23 and 13 per cent respectively of the total net working capital, which is not unsatisfactory, while the borrowed capital (including herein deposits as well as borrowings) formed 59 per cent.

	1921—22			1934—35		
	Agricultural Societies	Non-Agricultural Societies	Central Banks	Agricultural Societies	Non-Agricultural Societies	Central Banks
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Paid-up Share Capital.	11,14,262	18,47,710	4,83,857	11,78,891	33,53,940	6,31,304
2. Deposits ...	2,60,269	13,03,404	12,84,878	5,19,079	50,67,950	52,76,897
3. Borrowings from Central Banks.	8,64,991	1,17,997	65,263	22,34,417	2,55,407	29,001
4. Loans from Government.	2,066	3,051	...	1,15,817	1,54,601	34,800
5. Reserve Fund ...	2,70,445	4,44,139	1,34,948	11,82,418	13,96,170	3,95,027
6. Percentage of Borrowed Capital to the Total Working Capital.	Per cent 34·5	Per cent 3·3	Per cent 3·3	Per cent 41·5	Per cent 3·7	Per cent ·97

As against this, the turnover of the Societies and Banks in the aggregate was represented by Rs. 758·73 lakhs.

The growth of owned capital, which conduces so greatly to financial stability, is being encouraged, partly by the issue of shares and chiefly by the building up of

reserve funds with the help of the margin of interest between borrowing and lending.

2. *Share Capital.*

The share system is recognized as a convenient method of accumulating owned capital, provided it imposes no disabilities on the poor and does not serve as an excuse for dividend hunting. There is ordinarily no question of this, as the number of shares that may be held by a member is limited, as well as the maximum amount of holding, in most institutions. On the other hand, it may be an effective way of teaching thrift, like a compulsory system of deposits, especially where the share amount is not called in at once but made payable by instalments spread over a number of years.

The value of each share should be fixed sufficiently low to admit of the poorer people in the locality joining; it should not exceed Rs. 10 in rural Societies and Rs. 50 in urban Societies; and the total amount of shares which each person may hold should be fixed so as to check the desire for large dividends.

Shares should, on principle, be paid for from a member's savings, instead of by deduction from loans granted to him. There is the less reason for book adjustment where the value of the share itself or of each instalment is fixed sufficiently low to ensure cash payment.

There is no objection to a Society holding a number of its own shares in its undivided profits (other than the legal reserve). The capital of the Society is not reduced by withholding profits from distribution in order to hold its own shares.

The share capital in a Society of unlimited liability represents, not the stake of the member in the Society, but such portion of his unlimited liability paid-up as should give cover for any deficit in assets. In view of the fact that urban Banks are on the limited liability basis, there is no objection to members being asked ordinarily to take up reserve liability not exceeding twice the subscribed share capital. Where the share capital is fixed at a relatively small figure, the reserve liability may, however, be correspondingly high in order to create a sound business basis. This kind of additional liability is a good safeguard for creditors in case of bankruptcy, and is calculated to enhance the confidence of the investing public.

3. *Deposits.*

Ordinary deposits include Fixed Deposits, Savings Deposits and Current Deposits.

(i) Fixed Deposits.

Deposits imply thrift, form good lying money, and help to interest depositors in the management. There is no other facile method of tapping local capital. It should be the aim of primary Societies to encourage local deposits in all possible ways. But a primary Society is not a business institution; and so deposits should as far as possible be confined to persons with local interests, and deposits from outside the locality should be discouraged.

The deposits in rural Societies are small, as compared with those in urban credit Societies and in the Central institutions. Larger deposits may be attracted by stimulating thrift, by arranging for weekly and monthly collections of savings, by creating public confidence in Societies through sound management, and by adequate publicity for their work.

Societies should give preference to deposits from members over those from non-members, and should accept deposits from them in so far as the means for the employment of the same exist. And in order to tempt members to deposit, it is justifiable to offer slightly higher rates on their deposits than on those of non-members.

The interest and sympathy of depositors will be enlisted by giving them the opportunity to attend meetings of the general body and to become acquainted with the circumstances of the Society.

A system of compulsory deposits by members, which has been advocated by some, seems unnecessary and inexpedient. If insisted on, payments will often have to be made out of outside borrowings. As a means of inculcating thrift and building up an owned capital, the system of small instalment shares, which is itself a mode of compulsory investment, may serve the purpose.

Amount of Deposits.

Deposits offered will, in primary Societies, be accepted within the respective borrowing limits of the Societies. If the amount exceeds the loan requirements of members, the surplus should be sent to the Central financing institution for deposit at slightly privileged rates to be specially allowed.

Single fixed deposits for large amounts should be avoided, depositors being asked to split these up into

smaller amounts falling due on different dates, synchronising as far as possible with the dates of expected recoveries of loans.

Periods of deposit.

Agricultural credit Societies should not accept deposits which are not fixed for a period of at least two months. And, as far as possible, the periods of deposits in primary Societies should not be less than one year. Shorter terms may be allowed in the case of savings deposits, and likewise for temporary accommodation for not less than a month when made repayable at harvest or when repayments are expected.

If the credit business of co-operative Societies is confined (as it should be) to the grant of short term and intermediate loans, it follows that the maximum period for which deposits may be accepted should be limited to ten years. It will not ordinarily be safe for Societies to take deposits for more than five years, as conditions may change very much within that period. In case the Apex Bank is entrusted with the financing of special schemes which necessitate the taking of deposits for longer terms than ten years, the rate of interest should be reduced and the amounts of such long term deposits utilized solely for the particular purpose in question.

Rates of interest.

The maximum rate of interest admissible on deposits is fixed by Societies and approved by the Registrar from time to time. While the actual rates of interest will vary according to local conditions and requirements, it is necessary to prevent undue variations and competition of rates in the same area, and also to guard against the danger of leaving too narrow a margin between lendings and borrowings. For these reasons and in order to safeguard the interests of the movement as a whole, it is desirable that the Registrar should continuously watch the rates of interest proposed to be adopted from time to time.

There has been recently a heavy reduction in the rates of interest on all classes of deposits, corresponding to the fluctuations in the money market. The maximum at present is 4½ per cent in the Provincial Apex Bank and only slightly higher in the generality of urban Banks. The advantage of the reduction has in most cases been passed on to the borrowers, by lowering the rate payable on advances. It is hoped that the Provincial Bank will be able to give rebates to those Societies which were able to reduce their rate of interest to members, and that the lending rate to agricultural Societies as a whole will be considerably reduced.

Repayment.

It is unnecessary and also undesirable to make acceptance of deposits conditional on repayment at the convenience of Societies or to provide for compulsory repayment of long term deposits before maturity after previous notice to the depositors. These and similar conditions would ordinarily interfere with the free receipt of deposits on reasonable terms; and any general enforcement of them should be needless if deposits taken are strictly local and are not in excess of the Society's borrowing limits, or of the standard of fluid resources to be maintained.

As regards the converse case of repayment before the due date at the request of the depositor, such repayments should only be made at the convenience of the Society and for exceptional reasons, and there should always be a substantial reduction of interest on any sums so repaid.

Special care should be taken to repay deposits with punctuality. The intentions of depositors with regard to renewals should be regularly ascertained in advance.

In arranging to repay deposits, Societies should not count on renewals or fresh deposits but rely on stipulated repayments of loans, and should spread receipts and payments as far as possible over the whole year.

(ii) Savings Deposits.

The conjunction of savings deposits with the system of co-operative loans is justly deemed to be an important factor in co-operation. And as the furtherance of thrift and providence is among the most important objects of co-operative Societies, it is right that they should provide and encourage the utilization of the necessary facilities by serving as Savings Banks for their members. In Central institutions, they may be opened on behalf of both members and non-members, provided that the maximum amount accepted on one account is small, that a brief notice of withdrawal is required in each case, and that the accounts are not allowed to become current accounts. The prescribed standard of fluid resource should be maintained.

Provident Fund.

A common feature of urban Banks in the State is a scheme of Provident Fund bonds confined to members, which seems to be popular and working satisfactorily. Small sums are paid by a member every month for a period of from 3 to 7 years, at the end of which they are repaid with a substantial addition. A sinking fund is maintained to meet the bonds as they fall due. Every endeavour should be made to bring home to members

generally, especially in urban Societies, the distinct advantages offered by such a scheme.

(iii) Current Deposits.

Authoritative opinion has been generally opposed to the opening of current accounts by agricultural credit Societies, and in the case of non-members by urban credit Societies; and it strongly enjoins a certain amount of caution even in the case of Central institutions.

In the Mysore State, the system of current accounts has become established in both urban and Central Banks and is fully availed of by members. It is being worked under adequate restrictions and precautions which are embodied in the rules and by-laws. In the existing circumstances current accounts may be allowed in urban Banks under suitable safeguards, provided the staff has sufficient knowledge of the law and practice applicable. But the system is unsuited to, and is likely to be unworkable in, primary rural Societies.

(iv) Public Fund Deposits.

Shares and deposits of co-operative institutions are not at present trust securities. But there is no objection to these institutions receiving deposits from Municipal or Local Bodies, whether the deposits represent funds held for definite purposes or are ordinary account balances.

It may be mentioned that in Madras and some other provinces, the Governments have permitted Local Bodies to deposit in approved Central Banks their surplus funds and lodged deposits; and similarly with regard to railway cess and deposits lodged with Government Departments. Temple and other charitable or communal funds may likewise be held in fixed deposits.

Government servants, treasurers, etc., who have to tender security, may be permitted at their option to place the security money in a co-operative institution. This has already been done in the case of Excise contractors.

4. Borrowings.

Next to shares and deposits, loans form the most important source of working capital for Societies in Mysore.

Primary Societies should not be permitted to borrow directly from one another. The Provincial Apex Bank should be the sole medium for interfinance within the movement, as is the case with corresponding institutions elsewhere.

There appears to be some disinclination on the part of Societies to borrow from the Central institutions, and

a preference to raise their capital locally. This, so far it is not due to a spirit of self-reliance, is to be attributed partly to the complication and delay in the investigation and disposal of loan applications, and partly also to the fact that the terms upon which loans are granted are not always sufficiently attractive or elastic.

Borrowing Power.

The borrowing power of a Society depends, in the first place, upon the maximum limit prescribed in respect of that Society by the Registrar. In fixing this upper limit, which cannot be exceeded, the Registrar is expected to take into account (among other things) the type of Society, its objects, and its financial stability.

According to a Government Order of 15th November 1927, Societies with unlimited liability should not be permitted to borrow more than 30 to 40 per cent of their total assets, except with the special sanction of the Registrar, and limited liability Societies more than 12 times their owned capital (paid up share capital *plus* reserve fund). These limits seem rather generous compared with the limits prescribed elsewhere for primary Societies. For the Provincial Bank and other Central institutions, a proportion of owned capital to liabilities of one to twelve seems suitable.

While the limit prescribed by the Registrar controls the maximum borrowing power of the Society, it does not, of course, operate as a sanction or authority to the Central financing Bank, or affect its discretion in the matter of the funds to be advanced. It is incumbent on the Bank to assess a definite sum (within the prescribed maximum) as the actual extent up to which a primary Society can be permitted to borrow, and this will apply to the total borrowings, inclusive of both loans and deposits. The assessment will be based on a consideration of the class of members, their social and financial position, their character and creditworthiness, the security available with the Society for its borrowings, the efficiency of its management, and so on. It is the duty of the directorate of the Bank to fix every year in this manner the maximum sum it is prepared to lend to a Society.

The investigation of loan applications generally takes time, and there is some complaint about the delay that there is both in the disposal of applications and in the issue of loans after they have been approved. Some at least of this delay may be obviated if the investigation of a Society's borrowing capacity, instead of being postponed till after a specific loan application is received, is taken up

as part of a systematic process of the assessment of the financial position of all affiliated Societies to be conducted periodically. This will usually enable the Bank to deal promptly with loan applications. Each loan should be considered on its merits and issued at the time it is required.

A Central institution should not dictate to a primary Society the mode of distribution of a loan amongst its members. It lends to the Society, and is not dealing with the individual members. It has every reason to insist on knowing for what purpose a loan is required, and to refuse a loan for any purpose (say, the redemption of a mortgage) to which it objects. But the amount to be lent to individual members is not within its province.

The general body of every primary Society should, once a year at its annual meeting, fix the maximum limit up to which its committee is authorized to borrow without its sanction, the committee being personally responsible for loss if the limit fixed is exceeded. This limit is, of course, not necessarily the same as the assessment made by the Central financing Bank. The distribution of the available funds among individual applicants for loans is a matter for the committee.

Rates of interest.

Central financing institutions are expected to show all possible consideration to their primary Societies in the matter of the rates of interest on loans. The recommendation that they should lend at concessional rates sums required by Societies up to the extent of the reserve fund of the latter kept in deposit with them is reasonable in itself, and has authoritative support.

Security.

The pronotes of the borrowing Societies backed by the individual pronotes of their members ought to be sufficient security for the finance advanced by the Central institutions.

Where a Central or Provincial Bank borrows from a commercial Bank, the security offered will be as follows :—

(1) the capital and reserve fund of the Central or Provincial Bank,

(2) the reserve fund of the primary Society or Societies for which the loan is taken,

(3) the unlimited liability of all the members of the primary Society or Societies up to the limit of their guarantee, and

(4) the pronotes of the primary Society or Societies.

Repayment.

It is unnecessary and impracticable to make pronotes repayable on a fixed date. A certain measure of

elasticity will make it easier for Societies to repay from the sale of members' produce. The Central institution should concern itself about the source from which repayments are made, and should take action if it discovers that repayments are not being made out of the earnings of members.

5. *Debentures.*

Debentures have the advantage, as compared with long-term deposits, of being negotiable, but will have the effect of checking the inflow of deposits. Debentures form an excellent method of raising money for the liquidation of old debts and for the redemption of mortgages, provided arrangements can be made for securing them on land and for constituting a regular sinking fund. This points to the advisability of the ordinary co-operative Banks raising their capital through deposits, leaving the business of borrowing through debentures entirely to the Land Mortgage Bank and other special institutions.

6. *Cash and Cash Balances.*

Strict rules should be made regarding the custody of cash and securities. The cash balance maintained should be as small as possible, and should be kept in a fire-proof safe under double lock, one of the keys to be kept by the Chairman or the Secretary. It should as a rule be in the premises of the Bank, and in the custody of the management. Securities such as Government paper should be lodged for safe custody with the nearest branch of an approved commercial Bank. Cashiers should give security for the full amount of till money; and the secured amount should not be exceeded. Central financing institutions should not leave cash with primary Societies. Cash balances should be checked in detail at each audit.

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CHAPTER VI.

Employment of Capital.

1. Grant of Loans.

To whom granted.

Section 29 of the Regulation enacts that "a registered Society shall not make a loan to any person other than a member, provided that, with the consent of the Registrar, a registered Society may make loans to another registered Society."

The absolute prohibition of loans to individual persons other than members is qualified in the Bombay Act by the addition of the words "except with the general or special sanction of the Registrar." The Madras Act is more specific, and has a clause expressly empowering a Society to "make a loan to a depositor on the security of his deposit." A similar power has been given to Societies in Bihar and Orissa, but only with the general or specific sanction of the Registrar and subject to such conditions as he may impose.*

Section 29, as it stands in the Mysore Regulation, is imperative, and seeks to give effect to the principle that the object of a Society is to promote the interests of its members, and that non-members cannot claim to be treated in the same way as members. It is usually possible for a non-member depositor in most Societies, if the necessity arises for him to obtain a loan, to procure a share if available and become a member. At the same time it should be open to a Society, if applied to, to repay a portion of the deposit amount on a reduced rate of interest in a case of pressing need, as is done, for instance, in the case of Post Office Cash Certificates. The repayment should be, of course, in the discretion of the committee, and not claimable by the depositor as a matter of right. And where the Society has adequate fluid resource, such a discretion may be exercised in most cases as a matter of course. It does not seem possible to go further without trenching on a salutary principle.

* In Madras the Government have declined to agree to a proposal to permit the financing Banks to lend money to non-members on the security of gold and merchandise, on the ground that the business would be unco-operative and that the Banks were not intended to undertake commercial business. This, however, has been sanctioned in Bombay as a temporary measure in the case of well-established District Banks, as opening up a profitable avenue for the employment of surplus funds.

Loans having as their sole object the investment of funds are, it is true, not affected by the prohibition of loans to non-members; it does not, for instance, serve to prevent a Society from making a deposit in any mode permitted by Section 32.* But it is questionable whether the granting of loans to non-members on the security of their deposits can be treated as on the same footing as an investment or deposit of surplus funds.

The question has been already dealt with in Chapter IV in connection with the Provincial Apex Bank and other Central institutions.

Preliminary investigation.

A loan should in no case be given without adequate preliminary investigation. In the case of an application from a Society, the Registrar may be referred to for information touching its position, membership, solvency, etc.; but the financing Bank ought to make its own independent investigation irrespective of his recommendation.

Scrutiny of Purpose.

In the case of loans to individual members it is most important to scrutinize carefully the purpose of the loan and the repaying capacity of the borrower, including herein the extent of his actual indebtedness and the prospect of recovering the loan applied for if granted. Thus co-operative loans must in no circumstances be for speculative purposes. As far as possible, they should be given only for productive purposes or for necessaries which, as essentials of daily life, can fairly be classed along with productive ones. If the return from the expenditure of the loan covers principal, interest, and a little profit or saving, the loan is productive. Unfortunately, in the special circumstances of India, loans cannot be confined altogether to productive purposes. Owing to custom and sentiment some non-productive expenditure has to be accepted as necessary, (in the sense of being socially useful or unavoidable, even if not economically beneficial), and it is better that members should borrow from their Society rather than from the village money-lenders for such necessary purposes. But in all such cases of departure from the general rule, the loans should be granted sparingly and under close supervision. There must be a provision in the bond for recalling the loan within one month or immediately if it be not properly applied; and this power must be exercised, at the discretion of the committee, in cases of gross misapplication. At inspections the strictest enquiry should be made into the proper

* While the sanction of the Registrar is required for a loan to another registered Society, it is not required for a deposit in such Society.

use of loans. Societies must be constantly on their guard against the danger of granting loans too easily and so leading their members into increased indebtedness.

Means of repayment.

Again, the borrower should be required to show satisfactorily that he is in a position to repay the loan from the income which he will derive from his increased productive capacity, or that by the exercise of thrift he can effect a margin of income over expenditure which will suffice to meet the instalments of the loan as they fall due.

As elsewhere pointed out, multiple membership of credit institutions leads to undesirable results, such as borrowing from one of them to repay to the other. Efforts should be made to secure either exclusive membership or mutual consultation between the institutions concerned before a loan is advanced to a particular individual. Where a person is a member of more credit Societies than one, he should be required to confine his borrowings to one of them. If a member of an unlimited liability Society joins another one and so pledges his liability twice over, he ought to be expelled. There should be a clear rule, as in Bombay, that where a person has become a member of two such Societies, either or both of the Societies shall be bound to remove him from membership upon a requisition from the Registrar to that effect.

As the functions of a co-operative Society and those of a land mortgage Bank are different, there is no objection to a person being a member of both. In such a case he ought not to be able to obtain a long-term loan from the former, nor—unless he has been previously granted a long-term loan and his mortgage is subsisting,—any short-term loan from the latter.

Resort to money-lenders on the part of members cannot well be prohibited. But in an unlimited liability Society the committee should keep itself informed of every instance in which members take loans from sources other than the Society; for a member who becomes heavily indebted to money-lenders diminishes the value of his unlimited liability to the Society.

Periods of loans.

Co-operative institutions—both primary Societies and Central and Provincial Banks—should be required to confine their business to short-term credit, that is, for periods not exceeding five years and, with the due circumspection, to credit for intermediate periods between five and ten years. Credit for periods over ten years must be treated as long credit, and altogether eschewed by the ordinary co-operative institutions.

[This topic will be dealt with in more detail in Section 1 of Chapter VIII in dealing with types of credit.]

At the same time, it is desirable to prescribe a working rule embodying standard maximum periods for different kinds of loans. Managing committees should as a rule adhere to these terms, but may in exceptional circumstances sanction any necessary extension.

Distribution of Funds.

In order to secure the proper utilization of the funds ordinarily available within the movement, and to ensure sufficient approximation between the purposes and periods of loans, it is particularly necessary that Societies should carefully scrutinize all loan applications, and correctly fix the periods and terms for repayment, confining themselves to the issuing of loans for short and medium term purposes. The rule should be that short-term money should as far as possible be invested in short-term loans which will be punctually repaid. The possibility of members applying for loans on wrong pretences should be guarded against, and loans for unproductive purposes repayable at long intervals refused.

In distributing the money available for the grant of loans, regard should be had to the character and purpose of the loans, as well as to the number of applicants who may be benefited. Preference should be given to current needs of members, such as cultivation expenses, payment of land revenue, and maintenance. Loans for consumption are necessary, but should not be extended beyond reasonable limits. Short-term loans (for six months or a year) should as a rule be given preference over those for a longer term. Small loans to persons of limited means should be given preference over large loans to those relatively well-to-do. Loans required for purposes of production should have priority over those for non-productive purposes.

To reduce the chances of default by a primary Society to a Central financing institution, the period of repayment granted by the Society to its borrowers should always be shorter than that fixed for the repayment of the loan by the Society to the financing institution.

Borrowing capacity.

The by-laws of Societies with shares make it obligatory on every number to take a share, and in some Societies the maximum amount of loan admissible to a member is fixed by reference to the number of shares held by him. The correct principle is to base the amount of loan on the borrowing capacity of each individual;

at the same time, the capacity to borrow should not be fixed by reference to the number of shares held.

The Central financing Bank should assess the credit of an affiliated Society after re-examining and testing the Society's own estimate of its borrowing power and the data on which the Society has fixed the normal credit of its members, and considering the Society's needs and its own existing funds. The assessment of the Society's borrowing power should be reduced by the amount of deposits taken and of loans obtained from other sources. The data required by the Central institution should include a valuation (made by its staff) of the movable and immovable property of the members of the borrowing Society, and the earning and saving capacity of each such member. These data should be used to check conclusions based on the character of the Society and on its past record. The valuation statements should be carefully revised every year.

Loans granted by Societies to members should be based, not so much upon the value of their property and assets, which is a matter of the adequacy of the security offered, as upon their capacity to repay (1) out of the proceeds of their crops or other incomings in the case of short-term loans, and (2) out of their savings in the case of other loans. The fact of the applicant being a member of a joint Hindu family should of course be taken into consideration. The amount of every loan should be limited by actual requirements (taking into account the purpose as well as the need), and by the existence of a clear method of recovery from earnings within the time prescribed.

The Maclagan Committee suggested that the general body of the Society at its annual meeting should fix the maximum normal credit for each of its members for the following year, taking into consideration the ordinary requirements of his occupation, his earning capacity, and his character. This, however, is hardly practicable except in rural Societies with a limited membership. In other institutions, the fixing of credit for each member is a matter not for the general meeting, but for the managing committee, subject to the maximum credit limit to be fixed by the general body for members in general and for committee members.

The maximum credit limit permissible should not be exceeded by the managing committee without a special reference to the general meeting for sanction. If the

committee should advance loans in excess of the limits prescribed, its members render themselves personally responsible as guarantors of the loan. Members are not of course entitled as of right to the full limit of the normal credit.

Normal credit.

The introduction of the normal credit system in primary Societies is desirable, particularly as regards rural Societies. It was recommended both by the Maclagan Committee and by the Indian Central Banking Enquiry Committee. This system requires a Society to fix the credit limit of each member in advance of the season and to make arrangements for securing the advance in time. The amount so sanctioned will be at the disposal of the Society, and members will be at liberty to draw upon it as and when necessity arises, interest being chargeable on the loan only from the time the money is actually drawn. The objection that the undrawn or undisbursed credit will be call money which will bring no interest to the Society, but on which the Society will be paying interest, overlooks the fact that the provision made by the Society against such calls will ordinarily be either cash in hand, or a cash credit with the Central institution on which it will not itself have to pay interest until operated upon to meet a member's demand for credit.

The system in question has several practical advantages, not the least of which is the avoidance of delays in the grant of loans. A standard of normal credit is necessary, not only as a guide to the committee, but also to counteract the tendency for its members to sanction larger loans for themselves and their friends than is equitable. The maximum normal credits adopted for the Chairman and members should be particularly scrutinized by the inspecting and auditing staffs, and steps taken to secure a reduction if the credits are dangerously high. It is expressly provided by the rules that the total amount of loans issued by any Society and outstanding against the members of the managing committee in the aggregate shall not at any time exceed 25 per cent of the total of all the loans issued and outstanding against its members. A relaxation of this restriction is allowable at the Registrar's discretion, but should not be permitted except in rare instances and for exceptional reasons. Debts due from committee members should be shown separately in the balance sheet.

Information as to loans.

In the case of Societies with unlimited liability, it is essential that there should be kept in some place open to

the inspection of members a list showing the loans issued to every member, the names of the sureties and the amount of the loan still unpaid. At general meetings, the accounts and affairs of the Society should be fully discussed.

Cash Credit.

There is no better way of meeting the needs of members, when Societies are firmly established on correct principles, than the practice of allowing cash credits to individual members. Similarly, cash credits should be freely opened by the Central institutions in favour of thoroughly well-managed Societies, but should be subject to annual renewal, in order that, if the privilege is abused or the account is inadequately operated on, the Central intitution may have power to withdraw it.

Cash credits in urban Societies are usually granted only to persons who can offer good security. They should only be allowed when there are surplus funds, and after the needs of all the smaller men have been met; and they should be recalled whenever funds are needed. Care should be taken that the privilege is not abused and the credit on current account converted into a permanent advance.

In agricultural Societies, the credit of individual members should be assessed under two heads,—current agricultural expenses, and other purposes. For the former, individual cash credits may be opened, but should not be used so as to dispense with the necessity for securing approval of the object of the loan.

Interest.

As explained by the Maclagan Committee, the rates of interest charged by Central financing Banks on loans to Societies must, on the one hand, be materially lower than those charged in the bazaar to persons of the class from whom the members are drawn, and yet must be substantial enough to provide the large margin necessary for maintaining adequate fluid resource, building up a reserve, and meeting field and office establishment charges and other incidental working expenses. The rates will, at the same time, vary on a definite system with reference to the character of the borrowing Society and the length of the loan.

As regards Societies generally, the rate of interest on loans issued by them should, on the one hand, be high enough to allow of a margin of profit which will be sufficient to pay expenses and to build up an adequate reserve fund, and, on the other, be sufficiently low to render the best possible service to members in need of credit.

Allowing a percentage of 2 for working expenses and another ½ for unforeseen contingencies, 2½ or at most 3 per cent may be taken in the average as a safe and reasonable margin. The maximum normal rate of interest should not accordingly be more than 2½ or 3 per cent in excess of the rate paid on deposits in the Society for the same periods, or that charged on loans to the Society by the Central financing agency.

As it is the first duty of every Society to build up a reserve fund after meeting expenses, so it is incumbent on the Registrar to see that the margins between borrowings and lendings are not unduly reduced. The rates of interest charged should be subject to his sanction, and should not be altered without his approval.

The prevailing rates of interest will no doubt vary according to local conditions, the degrees of risk involved, and the resources of the respective institutions. But a nearer approach to uniformity is possible with increased co-ordination and mutual consultation between primary Societies and the Central institutions. The maximum rates charged by Societies should not depart widely (that is, by more than 1 or 1½ per cent) from the current market rates.

Owing to the easier conditions of the money market in recent years, the rates of interest generally, and particularly on co-operative loans, have declined materially. The rates now charged by the Provincial Bank range between 5 and 7½ per cent, and those charged by primary Societies vary from 7½ to 12 per cent. Adopting the general principle that the rate charged on loans issued by an institution should not ordinarily exceed by more than 2½ or at most 3 per cent that at which it is able to obtain funds, the present ruling rates would seem to be capable of further reduction. A reduction is particularly desirable in the case of agricultural loans. The penal rates should also be correspondingly curtailed. A general revision of rates of interest is called for at the present time when, though money itself is abundant, the means of obtaining it has become difficult for many. The matter cannot be left to the institutions themselves, but should be taken up by the Department under the orders of Government, and necessary action taken with the co-operation (which will doubtless be forthcoming) of the Provincial Bank as well as of the principal urban Banks. Simultaneously with any general lowering of interest rates for the future, the possibility should be considered of showing a similar

concession to existing borrowers by way of a rebate in deserving cases.

The central principle of Co-operation is that security shall be personal. Consequently the primary security for every loan should generally be personal. The character of the borrower, his reputation for honest dealing, and his ability and willingness to pay, must be the chief security in short term credit. Where both the amount and the period of the loan are short, it may be possible to dispense with further security. But usually, and as a general rule, the liability of the borrower should be supported by the indorsement of one or two other men of at least equal standing. Among the advantages afforded by the provision for sureties are, that it operates as a check against the grant of excessive loans, that it adds the special supervision of individual members to the general supervision of the Society over the proper application of the money borrowed, that it facilitates recovery in the event of default by the borrower, and that it interposes an additional safeguard against endangering the reserve fund. Security.

In this connection it is desirable to lay particular stress on the importance of making sureties realize their responsibility. "There should be no hesitation in making recovery from sureties when the debtor fails to pay, before having recourse to any ulterior form of recovery. Without such action it is impossible to maintain in members the sense of mutual responsibiltiy which is the main safeguard of the movement."*

Sureties must not merely be solvent, but must be known from their means to be able to pay the amount of the loan at any time without serious inconvenience. No member who is in possession of money lent to him by the Society should be accepted as surety for another member requiring a loan, unless the committee is unanimous that it is safe to do so. In assessing a man's value as a surety for another, his own liability to the Society as a borrower must be deducted.

So long as a member does not become responsible on behalf of himself as principal and of others as surety for more than he can be relied upon to pay, there is no objection to members being mutually responsible for each other, either in groups of three or otherwise.

A mortgage backing is no doubt desirable in the case of most long-term loans; but such credit is beyond the

* Maclagan Committee.

scope of ordinary co-operative Societies. These would be well advised in any case to shun mortgage security, to confine themselves to personal securities for all loans, and to protect themselves by limiting the loans issued to amounts and periods for which such security is suitable. In the case, however, of loans for intermediate periods, it may be necessary for Societies to take collateral protection in the shape of a pledge or mortgage of tangible property.

Urban credit Societies should lend to a much larger extent than at present on personal security; this is not only more co-operative in spirit, but will ensure greater punctuality in repayment, than the security of real property.

Mortgage security, at the same time, usually involves difficulties as to title, as well as difficulties in executing decrees obtained. The lands are often unsaleable, and in the absence of bidders may have to be taken over and managed by the Societies themselves corporately, a task for which Societies are by nature unfitted.

Mortgages may sometimes have to be taken as a precaution against the alienation of the assets of members, either colourably by the debtors or at the instance of the village money-lenders, and so as not to jeopardize the recovery of the dues of Societies. Except in such cases, and by way only of collateral security, mortgages should be taken sparingly. The value of the property should be at least twice the sum lent, except in cases where the period is comparatively short and repayment is by monthly instalments.

As in Bombay, Societies may be permitted, in the absence of bidders for the lands of defaulters, to take them over for a nominal bid, administering them like trust properties on behalf of the defaulters and returning them to the latter whenever the liability is liquidated.

Agricultural credit Societies, and loan and sale Societies, where these have been formed, should grant freely, and immediately the need arises, short-term loans on the security of harvested crops (and under due safeguards, of standing crops also) grown by members themselves (excluding the middleman).* Extensions should be given only in case of crop failure. Repayment should be enforced before the next cultivating season. As regards the amount to be advanced, there should be an adequate

* *Vide* Chapter III, Section 2.

margin on the value of the crop in each case. The produce should be carefully secured, and a pro-note taken for the loan.

Section 19 of the Regulation gives a Society a prior claim to enforce demands against certain property of its members, where this has been supplied by the Society or purchased from a loan given by it, or consists of crops grown by a member to whom seed or manure or a loan therefor has been given. But the prior claim only holds good where the Society has obtained a decree, and does not, in the absence of a decree, prevent an attachment or sale at the instance of an outside decree-holder. The opinion has been very generally expressed in all parts of India that the priority or lien should be converted into a charge, so that a Society may have a first claim without having to obtain a decree. This change has already been effected in the Bombay Act. In Madras the priority in favour of a Society is expressly made available against any claim of the Government arising from a subsequent loan under the the Land Improvement Loans Act. Similar action is recommended for Mysore.

There is no objection to loans being given to members on the security and to the extent of their deposits with the Society. The admissibility of similar advances to non-members is a different question, and has been referred to under Section 1, *supra*, and in Chapter IV.

The member's own share should never be accepted as security for a loan, as the Society has already a general charge upon it, and to accept its own shares as security is to accept its own capital. The Society can only enforce the security by diminishing its owned capital and thereby reducing its general credit and the security of creditors.

For the same reason, shares held by a Society in a Central financing Bank should not be accepted by the latter as security for a loan, though of course deposits may be. The security required from Societies should ordinarily take the form of pro-notes, which is the usual practice.

Provident Fund bonds are intended as a provision for members and their families. As such it is very undesirable to accept them as security for loans.

Section 29 of the Regulation gives power to Government to prohibit or restrict the lending of money on the security of movable property. The pledge of movables, such as gold, silver and jewellery or other articles of

intrinsic value, is however a convenient form of security and one in general use in Mysore as in most parts of India. Most credit Societies in urban areas may, it is considered, be trusted to conduct such transactions in a manner which might be dangerous in the case of rural Societies.

Disbursement of Loans.

There is, as a rule, not much delay in granting loans for short periods in the ordinary credit Societies. But in the case of loans for longer periods, where the necessary funds have to be obtained from Central institutions, and investigations, more or less elaborate, have to be made, delays do occasionally occur. But excepting in the Land Mortgage Bank and Societies, owing to the elaborate procedure adopted and the necessity for careful valuation of property and the scrutiny of titles, the delays do not seem to be unreasonably long. Loans should be disbursed with fair promptitude, if members are to have timely help and are not to be compelled to revert to the money-lender.

Loans required for the agricultural year or to meet seasonal agricultural demands should be distributed at one time, so as to minimize sudden and isolated calls for money. But in the case of very urgent calls (as for instance, to meet funeral expenses), the Chairman, Secretary or other selected official of the Society may be authorized to give advances up to a moderate maximum, subject to subsequent confirmation.

In Central institutions the bulk of the loans to Societies should be considered and sanctioned at one or two main seasons of the year. At the same time, arrangements should be made, through delegation of power or otherwise, to supply emergent loans whenever they are wanted.

The introduction of a system of normal credits will, as already pointed out, help substantially to minimize delay in the issue of loans. This should be accompanied by the maintenance of an up-to-date and correct Property Register for members. Where loan applications are numerous, sub-committees may be appointed to grant loans up to a specified limit, beyond which the applications should come before the full committee of management.

In cases where it is found advisable for a Society to pay off the prior debts of a newly admitted member, the best plan is to arrange to discharge them at an early date, but not necessarily on admission. If the creditor is troublesome and threatening, there is no help for it but to

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discharge the debts at once. Otherwise, it is best to pay off a part of the debts at a time, beginning with those paying highest interest, the others being kept over till the debtor has been sufficiently long in the Society for his qualities to be appraised and for the receipt of contributions from himself towards his extrication. This will have a better educative effect than the immediate and wholesale clearing off of debts on admission.

Utilization of loan amounts.

While there is reason to apprehend in many cases that the *bona fides* of the purposes stated in loan applications are not verified, and the scrutiny bestowed is more or less superficial, it is abundantly clear that Societies as a rule make no attempt to ascertain if the amounts advanced are properly utilized. It is indeed explained in extenuation that committees have no means of doing so, except where the loans are for the discharge of prior debts or for the construction or purchase of houses, and that in fact they have no "hold" over the borrower once a loan has been granted. This merely adds point to and serves to illustrate the dictum that, where the managing committees understand their duties and perform them honestly and efficiently, the grant of loans, their utilization and their recovery are satisfactory, while elsewhere these are left to the President or Secretary, or are neglected. Where large loans have been taken from Central financing institutions, it is not unusual for committees of Societies to cease to function after the loans are given out.

It is a fundamental rule of good management, especially in rural credit Societies, that the proper utilization of the loan should not be left to the borrower's discretion or the vigilance of his sureties, but should be watched and scrutinzed by the managing committee. The fact that it can recall the loan, if misapplied, (a power, by the way, hardly ever used) ought to give the committee sufficient "hold" over the erring borrower. Departmental officers should, during inspection, see whether this matter is receiving due attention, and make strict enquiry as to whether loans have been properly used or misused. Remissness on the part of the committee in this respect should adversely affect the credit allowed to the Society.

2. *Repayments and Recoveries.*

The Society should reserve to itself in all cases the right to call in a loan at four weeks' notice, and to call it

in immediately when loss is threatened through deterioration in assets of either the borrower or the surety. And as already emphasized, it should be at once recalled if found to be improperly applied.

While the special needs of individual borrowers will determine the periods for which loans are granted, they should be made repayable on dates convenient to the borrower as well as to the Society or Bank. It will be a great convenience if all or nearly all loans in agricultural Societies are made repayable at harvest.

Repayments should always be made out of the proceeds of the use of the loans. In the case of "crop" loans, repayments are automatically provided for on the fulfilment of their purpose. In the case of other loans, they must be made out of savings, and by compulsory annual instalments where the period exceeds one year, and preferably by instalments on each crop in the case of loans to agriculturists.

Subject to the condition that the terms of loans must depend on the terms for which deposits are held, and that repayments due within a given period should exceed the deposits falling due within the same period, Central institutions may grant loans either recoverable in fixed instalments or on pro-notes nominally payable on demand, the repayments corresponding with the repayments made by the Society's members. In correlating loans and deposits, it is not correct to count on renewals of deposits. Central institutions should pay much more attention to fixing proper periods for loans and convenient dates for repayment, which should usually be at or within three months after harvest.

Punctuality. Punctuality in repayment is of vital importance. It remains as true to-day as when it was first emphasised by the Maclagan Committee, that "there is no defect more prominent or more dangerous in the management of co-operative Societies in India than the exceeding laxity and unpunctuality in the repayment of loans as tolerated by Societies in some provinces," and that, "unless loans are repaid punctually, co-operation is both financially and educationally an illusion."

While the prompt repayment of loans should be rigorously insisted upon, punctuality should be secured by the application of personal pressure rather than by the levy of penal interest. Penal interest, if levied, should not be excessive; in any case it should not exceed the

ordinary rate by more than two per cent. On the other hand, it is desirable to have a regular system of rebates for prompt repayments.

Extensions.

Renewals and extensions should not be granted too freely and without just cause. In exceptional circumstances where there are good reasons for a member being unable to make repayment on the date fixed, the committee is justified in granting an extension up to one year when the time for repayment arrives. Renewals in the case of crop loans should be for periods not in excess of three months, and in the case of other loans should not ordinarily exceed six months. Extensions of short-term loans should only be granted in the case of crop failure; and in such case they should be freely sanctioned. Extensions should not be granted by Central financing Banks unless applied for by the Societies concerned.

The village Society has to obtain the approval of the Central financing Bank before an extension of the period of repayment can be granted to members. But often this approval is granted very late. Extensions are sometimes not given where they might legitimately have been. The system adopted is often inelastic, and not based on a definite policy having reference to actual conditions, agricultural and other.

The present hard times call for caution in financing on the one side, but also easier facilities for repayment on the other. Instalments require to be refixed by Central institutions in the interest of borrowing Societies. And, likewise, the instalments payable to Societies by their members may have to be spread over a larger period as far as their resources may permit. In deserving cases and where the prospects of recovery may be improved by the concession, extensions of time may be granted and repayments eased in other respects (as by the remission of penal interest).

Steps should be taken to assure fresh finance to Societies based on the extent of the recoveries made by them, as well as to members through their Society in case they discharge their individual liability irrespective of the financial position of the Society. Such an assurance will have a welcome effect in this time of stagnation. The aim should be to reduce each member's liability by easy instalments in consonance with present prices of agricultural produce.

Adjustments of payments.

All payments on account of decreed debts should be carried to principal and not to interest; no credit

should be taken for interest until the principal has been repaid.

NOTE—Messrs. Krishna Rao and Sesha Sastri dissent from this and consider that payments should first be appropriated towards accrued interest, and the balance if any towards principal.

The adjustment of repayments towards new loans, instead of towards the earlier one, is a mischievous practice, which should cease with the more rigid scrutiny of applications.

Repayments must be real, and must correspond with a real reduction of the borrower's liabilities, and not be made by a re-arrangement of debts.

True accounts must be kept on a strict cash basis. If, for instance, a crop loan is postponed, it is better to show it as extended, than to include it in a fresh loan. Otherwise they merely tend to encourage book adjustment.

Fictitious or paper adjustments (that is, nominal repayment and re-advance of a fresh loan on the same debt) are an insidious and dangerous irregularity, the prevalence of which makes it almost impossible to determine the real work of many Societies. The Maclagan Committee thought that the prescribing as a remedy of an interval between the two transactions cannot always be suitably applied; and that the only method of combating the evil is by special care at inspection to expose all such cases and to watch the maintenance of a proper working relation between the money received from members and that paid to the Central Institution.

The practice of book adjustments is said to have decreased, if it has not altogether stopped, during the last few years, a process which may have been helped by the diminished borrowings of Societies and the inability of individual members to raise loans elsewhere to make temporary repayments to Societies. But frequent renewals of the same loans on paltry payments are still common. Renewals should not be permitted until the interest in full and at least 25 per cent of the principal is paid by the borrower, nor in any case till after the lapse of a prescribed interval, which should not be less than a month or six weeks.

Credit statements.

With a view to systematize the general working and finance of Societies, it is desirable to insist (as is being done in Bombay) upon the maintenance of what are

called "Credit Statements." They are intended to show exactly the position as regards each Society in relation to the financing institution, and each member in relation to his Society, in the matter of total indebtedness, actual repayment in respect of each pro-note, the assessed repaying capacity, and eligibility for fresh finance. Even Societies which do not require or ask for finance should be advised to prepare such statements. The credit statements should be carefully scrutinized.

Demand and Recovery statements.

In order, as far as possible, to give effect to the principle that the demand should have some reference to the actual repaying capacity of the borrower, it is also desirable (as in Bombay) to introduce a system of "Demand and Recovery" statements, which are prepared about harvest time on the basis of the outturn of crops and the level of prices. They will also contain an estimate of the recoveries which a Society expects to make from its members and repay to its financing Bank. The Bank in turn assures fresh finance to the Society in proportion to recoveries (as previously indicated).

Accounts of Loans.

The system of accounts should show clearly whether any repayments have been made, what loans have been extended, and which have become overdue. [When the system of normal cash-credit becomes common, there will of course be nothing technically overdue, and it will only be necessary to see that accounts are properly operated on.]

The account of each class of loan should be kept separately, and should show the total amount in each class actually overdue at any particular time.

Renewed and overdue loans must be clearly discernible. They should be shown distinctly in the balance sheet, classified into—

(1) loans on which only one extension (usually for three or six months) has been granted;

(2) loans on which one or more extensions for longer periods have been granted;

(3) loans on which extensions have been refused.

Overdue loans should be transferred to a separate ledger, and quarterly reports sent to the Central financing Bank. Loans overdue for more than three years should ordinarily be treated as bad debts. Figures for overdue interest due by Societies to a Central institution should be shown separately in the statistics published, but not included in its balance sheet or profit and loss statement.

Central Institutions should keep a register of the history and financial position of each affiliated Society, to be written up every year.

Agency for Recovery.

Recoveries of dues should be made by the Society with its own staff, and not by the help of any outside agency. In view of the large increase of overdues at the present time, it will be necessary for Societies (either singly or jointly) to employ special agency for their collection. Financing institutions should have their own Inspectors to go round during the harvest season to attend to collection work. Such a staff has, as a matter of fact, been entertained by the Apex Bank.

While the Registrar may render such assistance as is possible in the recovery of long-standing dues from Societies, the Central institutions should rely on their own staff for exercising pressure and effecting and controlling recoveries. They should not, however, ordinarily institute proceedings against defaulting Societies, but apply to the Registrar in the first instance to take action under Section 36 to make an inspection and enquiry, followed, if necessary, by supersession and liquidation.

In areas where decree debts are heavy, arrangements should be made by the Registrar with the Revenue Department for the entertainment of special Revenue Inspectors at the cost of the Societies concerned.

Responsibility for negligence.

The members of committees should be made personally responsible, jointly and severally, for the repayment of loans which by their negligence may have become time-barred.

Overdues: Steady increase.

The following figures indicate the proportion of overdues to total demand in Central financing institutions and primary Societies during the last ten years:—

Class of Society	Year	Demand	Collection	Balance	Percentage of overdues to demand
Central ...	1925-26	8,85,404	3,29,175	5,56,229	62·8
Primary ...	,,	66,43,682	50,71,360	15,72,322	23·6
Central ...	1926-27	8,83,481	3,53,172	5,30,309	60·0
Primary ...	,,	74,17,888	54,48,354	18,69,534	25·2
Central ...	1927-28	9,53,837	4,25,212	5,28,625	55·4
Primary ...	,,	86,48,068	60,18,999	24,29,064	28·0
Central ...	1928-29	5,94,595	3,21,530	2,73,065	45·9
Primary ...	,,	81,78,523	56,14,812	25,63,711	31·3

Class of Society	Year	Demand	Collection	Balance	Percentage of overdues to demand
Central ...	1929-30	5,91,079	3,03,200	2,82,879	48·9
Primary ...	,,	1,02,23,419	78,13,433	21,09,986	23·6
Central ...	1930-31	5,06,387	1,82,103	3,24,284	64·0
Primary ...	,,	1,24,98,474	90,65,806	33,32,668	26·7
Central ...	1931-32	6,25,821	2,09,389	4,16,432	66·5
Primary ...	,,	1,37,39,873	94,12,878	43,26,995	30·8
Central ...	1932-33	8,24,460	2,99,124	5,25,336	64·19
Primary ...	,,	1,35,58,915	94,71,361	40,87,551	30·1
Central ...	1933-34	9,44,768	2,68,870	6,75,898	71·5
Primary ...	,,	1,56,47,133	1,00,84,812	55,62,321	35·6
Central ...	1934-35	12,83,667	4,49,285	8,34,382	65·0
Primary ...	,,	1,46,51,114	98,16,126	48,37,988	33·0

Considering the abnormal conditions through which the movement has been passing, it is not surprising that the overdues, particularly in the primary Societies, are heavy. Recoveries as a whole have not been satisfactory during the period under consideration. The percentage of uncollected dues to total demand has been fluctuating, but has not markedly improved.

Causes of unsatisfactory position.

Various factors have contributed to the present unsatisfactory position.

The first place among them must be given to the severe economic distress which has prevailed throughout the country during the past five or six years. The unfavourable agricultural and seasonal conditions, with the unprecedented decline in the prices of commodities and in the yield from land, have vitally affected the repaying capacity of the agriculturist, besides greatly appreciating his liabilities on account of the fluctuations in values. On the other hand, all classes have been affected by the growing competition and unemployment. The increased cost of living consequent on a general readjustment of the standards of life in recent years, often no doubt coupled with the failure to reduce optional expenditure on luxuries and extravagant expenses on marriage, dress, etc., has also tended to lower the capacity of most persons to save.

Apart from the economic depression, there are various other causes which may be or have been assigned for the poor recoveries, such as the increased activity by landlords

in the recovery of rental arrears, and by money-lenders of their debts; the growing indifference of cultivators to their obligations, with the increase of their burdens and calamities; the knowledge that grain, etc., cannot be attached in execution, and that considerable time can be obtained in execution proceedings; the fall in land values and the lack of bidders, making cash recoveries difficult; and possibly, also, expectations of concessions from debt conciliation and other impending or anticipated measures.

The initial cause of overdues may in many cases be traced to the insufficient scrutiny bestowed on loan applications, the eligibility for a loan being determined by the adequacy of the security offered rather than by the productive character of the purpose of the loan; to the defective arrangements for valuation of property and for verification of title; and last, but not least, to the culpable negligence and apathy of many committees in the matter of taking timely and effective measures for the recovery of dues.

Over and above these causes, there are others which concern the borrowers chiefly, such as the fact that, since the interest charged by Societies is usually below the market rate, borrowers do not always trouble to repay. Nor are they otherwise in a position to do so from outside borrowings, as money-lenders are reluctant to lend to them as freely as before. A fairly good proportion of the debts, moreover, having been taken for the discharge of prior debts and for unproductive purposes, repayment of the loans under present conditions is extremely difficult. There is also reason to think that the rise in overdues is due in no small measure to wilful default, which has been gathering considerable force owing to the difficulties in executing Societies' awards. It is not too much to say that demoralization has set in among members; and recoveries are proportionate to the amount of persuasion and coercion used by Societies.

Financing institutions are also responsible for the situation. Loans were sometimes granted in excess of repaying capacity, and extensions of loans were not always granted promptly. More than all, there is the listless attitude of committees, lest they should become unpopular by resorting to coercive steps in the matter of collections.

A considerable proportion of overdues is outstanding against Societies under liquidation and award. Also, recovery by execution is in many cases slow.

Remedial measures.

One of the methods of dealing with arrears commonly adopted is to charge penal interest on the amount overdue at an enhanced rate from date of default. But this is not very effective even in normal times, and is even less so in present circumstances.

The application of personal pressure on the borrower's sureties should always be the first of the precautionary measures to be adopted. Apart from this, the only other way of ensuring payment is to put pressure upon the borrower to repay according to the best of his capacity. In case of contumacy, the claim should be referred to the Registrar for decision, application for conditional attachment of property being made whenever action to defeat or delay execution is apprehended on the part of the debtor; and as soon as the decision of the Registrar has been passed, steps should be taken to enforce it. But where the debtor shows a willingness to meet the liability to the best of his ability, coercive process may be postponed if he makes a *bona fide* attempt to discharge a part at least of his liability, and either gives assurance that he will not alienate his property to evade liability or gives a first mortgage on it as security for his loan.

Persons against whom coercive steps have been taken show themselves to be unfit to continue to be members, and should automatically cease to be such (unless liable only as sureties).

In this manner, while showing due consideration in deserving cases, and without going in for wholesale expropriations and expulsions, Societies will in course of time be compact groups of persons who can trust each other and have by past conduct shown themselves worthy of membership.

A person who has defaulted in respect of his own loan for three months should be disqualified from the office of a member of the committee.

Special measures.

Apart from measures that have to be normally taken to deal with overdue loans, the present exceptional circumstances call for some special action.

Societies and financing Banks should undertake a systematic examination of their financial position with reference to their outstandings.

Every loan in each Society should be examined with a view to ascertain whether it is adequately secured, and whether action should be taken at once to collect it, or time can be given to enable the borrower to pay it of his own accord. If it is found that with certain concessions

borrowers are likely to repay their dues in full without coercive action, such concessions may be given, for instance, a suitable extension of time for repayment, the reduction of the rate of interest (where originally too high) on condition of future regular payment, and the waiving of penal interest.

In addition to action taken by Societies, the Central institutions should themselves set on foot intensive schemes for an examination of all loans outstanding against members in primary Societies. All loans which are found on scrutiny not to have been adequately secured should be listed out, and additional security required to be taken. Debtors may be given suitable extensions of time with a view to avoid the sale of their properties on condition of their giving adequate mortgage security, the mortgage bonds being assigned by Societies to the Central financing Bank. In cases where additional security is not forthcoming, immediate steps should be taken for the recovery of long-standing arrears. In this manner loans outstanding against members of village Societies will be adequately secured, even if it be not possible to collect them fully.

All this is part of the scheme of rectification which is actively in progress in most provinces in British India and likewise in Mysore. Societies with heavy overdues should be rectified without delay; and where it is not possible to do so, the question of supersession or liquidation should be considered.

In view of the exceptional seasonal and other conditions which have affected the repaying capacity of the poorer classes, it is not possible to enforce coercive measures with rigidity. As a matter of fact, a good deal is already being done to give such relief as is possible to deserving members. Coercive action is being put off against members who, though unable to pay, have enough transferable property to offer as security by way of first mortgage. Liquidation proceedings are prolonged and easy instalments fixed. Some Banks have been fixing their demands with due regard to the crops of the year, and take coercive action only if members fail to pay even what they are able to do.

When a comprehensive scheme of debt conciliation is introduced, it may no doubt be possible for Societies (under suitable conditions to be adverted to later) to undertake to conciliate their own dues in the interests of deserving borrowers.

Apart from all such measures, a policy of leniency by wholesale remissions or long postponements is impossible. The bulk of the money with which members of Societies are financed is obtained from deposits made by the public by way of investment, and consisting often of the savings of persons of moderate means or the provision for widows and orphans. It is not possible, nor is it in the interests of the movement as a whole, for co-operative Banks to make large-scale concessions to over-indebted members at the expense of depositors, much less to run to the rescue of agriculturists outside the movement.

3. *Division of Net Profits.*

Statutory provision.

Section 33 of the Regulation declares that the funds of a Society shall not be divided among its members. Accordingly, funds like the Reserve Fund are indivisible, and no member can claim in them a specific share. It is only from net profits that a dividend can be distributed, and that too after the allotment of a statutory minimum to a reserve fund. After this allotment is made, it is open to the Society to make "payments (among the members) from the remainder of such profits and from any profits of past years available for distribution," "to such extent and under such conditions as may be prescribed by the rules or by-laws."

The word "payments" in the Section includes both the regular or ordinary dividend and any bonus paid in addition. So it will not be open to a Society to enhance the amount distributed to members above the maximum prescribed by calling the excess a bonus. Bonuses, in fact, should be absolutely prohibited in co-operative institutions; there is not the same reason for them as in joint-stock Banks.

Calculation of Net Profits.

The irregular practice of declaring dividends out of unrealized interest is in vogue in the Apex Bank and in a few other urban institutions, and heavy amounts of such interest are, it is understood, outstanding in the balance sheets as assets for long periods.

There should be a definite rule under the Regulation prohibiting the inclusion, for the purpose of reckoning profits for distribution among shareholders, of all overdue interest—that is, interest accrued due but unrealized for more than six months. But in the case of Central institutions the Registrar may, in special cases, permit an exemption in favour of preference shareholders when he

considers such a course justified or desirable. Interest earned but not realized should be shown separately in the profit and loss account. All accrued interest so deducted, which is actually recovered during a subsequent year may, however, be permitted to be added to the profits of such year available for distribution. No dividend should be paid otherwise than out of profits actually realized.

It is important to see that paper credits by book adjustment are not taken for profits actually realized in cash.

Distribution of Dividend.

In order to prevent the neglect of co-operation in favour of individual profit, the maximum individual holding of shares has been prescribed under the Regulation, and the maximum dividend that may be declared in favour of share-holders limited to 7½ per cent under the rules.

While the actual rate allowed will depend on the nature of the institution, and vary with the amount of net profits available, the principle should be to rigorously restrict the maximum dividend on shares to a fair interest on capital. The actual rate may be slightly (that is, by one or at most two per cent) above the ordinary borrowing rate of the institution or the average rate of interest paid by it on fixed deposits, but in any case not in excess of the ordinary lending rate of the Society.

Apart from general considerations, it is also usually found necessary to impose specific restrictions and conditions. Thus, agricultural credit Societies should be prohibited from distributing dividends except with the Registrar's special sanction. In Societies with unlimited liability and without shares, no division of profits should be allowed at all; but where there are shares, profits should not be divided so long as a Society holds deposits from non-members, or is under the necessity of borrowing from a Central institution for its ordinary transactions. Where, however, the liability is limited, a dividend on shares may be permitted subject to the prescribed limits and out of profits actually realised.

The question has been considered whether, in cases where dividends are permissible, provision may not be made for their compulsory accumulation up to a prescribed amount, say Rs. 50, before they are actually disbursed. This will be to regard them as thrift deposits, and it will also no doubt tend to an increase of working capital. But the balance of available opinion is opposed to any measure of compulsion in the matter, and in favour of the periodical

distribution of dividends as and when declared, both as an incentive to the taking of additional shares by members and as promoting public confidence in the stability of the institution and tending to attract outside deposits. It may be possible to offer inducements in the shape of a special rate of interest on dividend amounts accumulated up to a certain limit and period; but a compulsory rule is considered inexpedient. The same remark may be made with regard to rebates on purchases.

A welcome change in the attitude of Societies and Banks has been the declaration of lower dividends during the past few years. This is due partly, of course, to the decrease in profits, but partly also to the feeling that during the present depression the dividend to shareholders in a co-operative institution should not exceed a reasonable interest on capital. The recent limitation of the maximum rate in urban Societies to 7½ per cent has undoubtedly had a healthy effect.

4. *Reserve Fund.*

Statutory minimum.

Although the surplus assets in the shape of Reserve are primarily intended to come into play in the event of liquidation, they constitute a most important element in the working capital, since they are the permanent and indivisible property of the Society of which it has the free use and benefit.

Reserve funds may be of two classes: a general reserve set aside out of profits to provide additional working capital, or to strengthen the liquid resources, and to be available for contingencies; and specific reserves to provide for some probable or estimated loss on the realization of certain assets (*e.g.*, investment depreciation) or in respect of pending transactions (*e.g.*, bad debts).

Section 33 prescribes a minimum for the reserve fund of at least one-fourth of the net profits in each year. It is open to Government, however, under Section 47, to exempt any Society from this obligation to put by 25 per cent of its net profits to reserve, or to prescribe any other minimum. In addition, the Government is empowered by Section 44 to make rules generally to provide for the formation and maintenance of reserve funds in any Society or class of Societies, as well as for the application and investment of such funds. Thrift and savings Societies, which neither borrow from non-members nor lend to members in excess of their assets, should be exempted from maintaining a compulsory reserve.

The object of a Society should be to accumulate a reserve fund until it obtains a capital of its own sufficient to meet all needs and thus becomes independent of outside assistance. To ensure the reserve fund growing quickly, the margin of interest on loans to members should be kept fairly high. The growth of reserve funds in rural credit Societies is hampered by the low margin available for working expenses and the consequent small profits. Urban credit Societies, however, with their large working capital and handsome profits, are usually in a position to build up decent reserves.

The share capital *plus* the accumulated reserve fund should not be less than one-tenth of the total liabilities (including loans and deposits). The present average proportion for primary and Central institutions in the Mysore State is, respectively, 1 : 1·2 and 1 : 5, which is satisfactory.

Employment and Investment of Reserves.

The first function of the reserve fund is, of course, to cover bad debts. Bad debts may be written off against the reserve fund of any Society; and in the case of limited liability Societies, if the bad debts exceed the reserve fund, the balance remaining may be written off against the share capital.

Section 32 of the Regulation permits a Society to invest or deposit its funds in the Government or Post Office Savings Bank, in the shares or on the security of any other Society, or with any Bank or banker approved by the Registrar, or in any other mode permitted by the rules. The rules provide that, "with the previous sanction of the Registrar, the reserve fund or part thereof may be utilized as working capital, or may be invested in the purchase or leasing of land or in the construction or acquisition of buildings, or in such other manner as may be necessary or desirable for the conduct of the Society's business."

Usually, the reserve fund should be invested in one or other of these modes up to a limit prescribed by the Registrar.

The excess beyond the limit prescribed should, on principle, be employed productively and not kept idle. There is no reason why a Society should be required to invest all its surplus funds in an outside institution when by utilizing it in its own business, as in the way of loans to its members, it may earn greater profits. In Societies of unlimited liability, the bulk if not the whole of the reserve fund may be used in their ordinary business as

working capital; so also in Societies which have no deposits. But in other Societies a moiety of the reserve fund should ordinarily be invested outside.

In the case of the Apex Bank, one-third of the reserve fund should ordinarily be required to be invested in gilt-edged securities, including redeemable Government securities or land mortgage or other debentures guaranteed by Government, and the remainder permitted to be employed as working capital.

Reserve funds of primary Societies should be either invested in gilt-edged securities or guaranteed debentures as aforesaid, or deposited with their Central financing institutions. The latter, for their part, should offer these Societies slightly higher rates of interest on such deposits than those allowed in the Government Savings Bank, and also afford them appropriate cash-credit facilities up to the amount so invested, on terms not exceeding by more than one per cent the rate charged on the invested amounts.

The option given to a Society by Section 32 to invest funds in the shares of any other Society should be qualified by a proviso (as in the Bombay and Madras Acts) that no such investment shall be made in the shares of any Society other than one with limited liability.

Where any portion of the reserve fund is permitted to be used as working capital, interest thereon at the same rate as for deposits for one year should be added to the reserve.

5. *Special Funds.*

In addition to the Reserve Fund proper, required by law to be maintained, there are other funds which it is open to a Society to form.

Dividend Equalization Fund.

A special reserve set apart for equalizing dividends seems to be in contemplation of the Regulation, the same to consist of "any profits of past years available for distribution": *vide* Section 33.

In fixing the limit for dividends, the existence or absence of this arrangement for equalizing the return to shareholders may be taken into consideration. So if the dividend in a Central institution in any year falls below the maximum, the shortage may be made up in subsequent years when the profits allow, as an incentive to the collection of overdue interest.

Bad Debt Fund.

Co-operative Societies and Banks should be required to make satisfactory provision for all overdue loans considered to be irrecoverable before any dividend is declared.

It is true that it is itself the primary function of the reserve fund to cover such irrecoverable dues. But instead of breaking into the statutory reserve by writing off each year's bad debts against it, it is much better to keep it strictly as a reserve, and, after the building up of a reserve fund has made some progress, to form a special Bad Debt Fund in addition. To this should be carried every year a reasonable amount of the profits after the statutory allocation to the reserve fund. This will be an important line of defence and add to the financial strength of the institution as well as to the confidence of the investing public. The provision of a Bad Debt Fund is particularly desirable in institutions where as a rule only the legal minimum of 25 per cent of the net profits is carried to reserve; it may be dispensed with where a substantial amount in excess of this is placed to reserve every year. Such a measure of precaution is of particular value at the present time, when overdues and anticipated bad or doubtful debts are on the increase.

Building Fund.

A Building Fund is permissible, provided its formation is postponed until an adequate fluid reserve has been provided. Buildings erected should not be too expensive or pretentious.

Share Transfer Fund.

All limited liability Societies will be well advised to create a "Share Transfer Fund" by voting a portion of the undistributed annual profits to this purpose. By this means transferable shares are made withdrawable so far as the holder is concerned, as the latter can sell to the Transfer Fund instead of having to wait for an individual purchaser.

6. *Contributions to Charitable Purposes.*

It is open to a Society, with the sanction of the Registrar, after a fourth of the net profits in any year has been carried to the reserve fund, to contribute an amount not exceeding fifteen per cent of the remaining net profits to any charitable purpose: *vide* Section 34 of the Regulation. The expression "the remaining net profits" implies that the contribution may be made irrespective of whether a dividend has been declared or not.

The definition of "charitable purpose" given in the Section should be carefully noted: it includes the relief of the poor, education, medical relief, and the advancement of any other object of public utility, but does not include a purpose which relates exclusively to religious teaching or worship.

The limit of contribution may be raised to 20 per cent of the net profits, as has been done in Bombay; and at least one-third of the aggregate contributions of Societies may be ear-marked as a provincial fund for the promotion of education in the principles and methods of Co-operation, as recommended in Chapter IX.

For the rest, Societies will be well advised in devoting a substantial proportion of their Common Good Fund to objects which concern their own poor members.

CHAPTER VII.

Fluid Resources, State Aid, Accounts.

1. Fluid Resources.

Object and importance.

"Fluid Resources" comprise those assets which are held in a liquid form, whether in cash or in easily realizable outside investments, in order to meet the claims of depositors or to provide for financial needs in times of special scarcity. While the reserve fund is meant to be accumulated as the permanent property of the Society, to fall back upon (along with the share capital) in the event of liquidation, the Fluid Resource has for its object to ensure the ability of the Society to meet its obligations to depositors.

Every Society is expected to maintain adequate fluid resources for meeting all its deposit liabilities. Societies which hold large deposits should arrange to have a cash-credit with their Central institutions for meeting demands unforeseen and unprovided for. Loans from other Societies or Banks should not be resorted to except when absolutely necessary to meet calls which could not be anticipated or otherwise provided for.

Central institutions must keep a fluid resource to meet contractions of credit entailing withdrawals of deposits at due dates (ensuing from agricultural calamities or trade difficulties involving low prices), possibly accompanied by failures of Societies to repay loans and by further calls for financing urgent requirements of affiliated Societies. They should help their affiliated Societies with cash-credit facilities, while themselves obtaining such facilities from the Apex Bank, and in the case of the latter from the Bank of Mysore or from Government. The provision and maintenance of an adequate fluid resource by the Apex Bank is the keystone of the financial system.

Standards of Fluid Resource.

The standard of fluid resource to be maintained depends mainly on the extent to which deposits are held, including their nature, amounts and periods of maturity. In the case of a financing Bank, it must suffice to meet its own requirements and those of primary Societies which have entered into arrangements with it. The standard should be subject to periodical readjustment, preferably every quarter.

For limited liability Societies with deposits under Rs. 20,000, and for unlimited Societies as a whole, the standard of fluid resource to be maintained may be left to the Registrar's decision. They must however make regular estimates and keep sufficient cash balances, and not leave the matter to chance. According to Institutions.

The Provincial Apex Bank should maintain as fluid resource a sum sufficient to cover one-third of the possible liabilities for the ensuing year.

In primary urban Banks with deposits of or over Rs. 20,000, every effort should be made to work up to the standard recommended for the Apex Bank, although, owing to the fact that they have to look to local sources for the bulk of the money required in addition to their owned capital, they may have difficulties in doing so. The Registrar should endeavour to help urban Banks by obtaining cash-credit facilities for them on the collateral security of their members' pro-notes.

A general standard of 50 per cent for fixed deposits is too high and will tend to make it unprofitable for Banks to offer a rate of interest sufficiently attractive to tempt depositors. It seems sufficient to maintain as fluid resource 30 per cent of the fixed deposits falling due within the next six months, or 50 per cent of those falling due within the next 30 days, whichever is higher. For Fixed Deposits.

As far as possible, large deposits of more than Rs. 10,000 should be split into smaller sums, the due dates of which should be spread over a suitable number of months or years, and made to synchronize with the periods when repayments (from sale of harvests, etc.,) may be expected from members, or are ordinarily expected from Societies. In addition to the fluid resource required for other deposits, at least 66 per cent of the amount required in the case of these large deposits should be available two months before repayment is due.

With regard to current accounts, notice of large withdrawals might be required. Failing this, it is absolutely necessary to have a higher standard of fluid resource than for fixed deposits; and this, provided proper care and precautions are taken with regard to current accounts, may be fixed at 40 per cent. The same standard will be required in respect of the undrawn balance of cash-credit to Societies and members. For Deposits at Call and Current Accounts.

Societies may be required (as in Madras) to keep 25 per cent of savings and thrift deposits as margin, which seems sufficient in practice. For Savings and Thrift Deposits.

For cash-credits allowed to other institutions.

The Apex Bank should be required to maintain in the form of fluid resource at least 40 per cent of the amount of cash-credits allowed to other Societies as cover for deposits in them.

Form and Investment.

It being an axiom that any Bank taking deposits must maintain a reserve of cash or easily realizable securities of adequate size to enable it to meet its depositors, the question arises as to the form in which this liquid resource should be invested. A well-managed joint-stock Bank is in a position to distribute its funds in equal proportions among cash, investments, and loans. But co-operative Banks must deal in securities of a very different nature, owing to the much longer periods of their loans, the uncertainties and fluctuations in repayments, the absence of facilities for reconversion of Societies' paper, and other causes. They have therefore to maintain adequate fluid resources in cash or gilt-edged easily realizable securities.

As a rule, fluid resources should consist of: cash in hand; the undrawn cash credit with a recognized commercial Bank; and 80 per cent of the current market value of authorized securities.

Cash-credits given by presidency and commercial Banks are exceedingly useful and legitimate fluid resource; but the terms on which they are enjoyed make them a rather uncertain resource, and excessive reliance on them must be avoided. The Indian Central Banking Enquiry Committee emphasized the importance of cash-credit and overdraft facilities being generously given by the Imperial Bank on proper co-operative paper satisfying the standards prescribed by the Bank. Similar facilities from the Bank of Mysore ought reasonably to be expected in the case of the Central co-operative institutions in the Mysore State: *vide* Chapter IV. The continuance of such facilities, when granted, should be ensured and made obligatory by contractual guarantee or other suitable method.

In the event of a Central institution opening a connection with a well-established commercial Bank, and obtaining finance from it for crop purposes, the latter will probably permit the deposit of the fluid resource in current account, and allow interest on the day-to-day balances at the same rate as that charged on the cash-credit granted for crop finance up to the amount of the latter. Such a facility would be of great benefit to Central institutions, as they would, in many cases, receive immedi-

ate interest at a favourable rate for every rupee of fluid resource maintained. The Apex Bank should in its turn afford similar facilities to urban Banks receiving large deposits.

Urban Banks would be well advised in investing a substantial portion of their fluid resources (as well as of their reserve funds) in the purchase of Government securities. These may be placed with the Central financing institution as cover for a cash-credit. This will avoid the loss of interest arising from idle cash balances, and will not make the resources less fluid. Interest will be received on the investments, while it will only be paid on the drawn portion of the cash-credit.

Of course, securities held in respect of the reserve fund cannot be regarded as normally available as fluid resource. The object in the two cases is different, and the investments should be kept distinct.

Periodical Reports to Registrar.

All credit Societies should submit quarterly statements to the Registrar, showing in detail that the rules in respect of fluid resources are being observed. The reports of the Central institutions should be reviewed by the Registrar, and copies of his reviews submitted to Government. In the case of Societies with a capital not exceeding Rs. 50,000, the Auditors should always add to their audit memorandum a paragraph stating the exact amount of fluid resource maintained and their opinion as to its adequacy.

2. *Disposal of Surplus Funds.*

Surplus funds, (*i.e.*, superfluous money) in urban Societies should be regularly passed on for deposit to the Provincial Apex Bank.

Some of the surplus now lying idle in the Apex Bank ought no doubt to find investment if the lending rate to Societies be suitably reduced (as already recommended). The Land Mortgage Bank and some of the building Societies may possibly be glad to have the use of the portion which consists of long-term funds.

Apart from such temporary measures, the Apex Bank may well take up for investigation, along with the Departments concerned, the general question of the organization and financing of industrial and marketing Societies. A satisfactory scheme in this respect will, in addition to its direct advantages, also incidentally provide ample outlets for all the available funds not required for other purposes.

3. *Special Banking Business.*

Agreeing with the Indian Central Banking Enquiry Committee, we are of opinion that there is no objection to urban Banks doing all kinds of banking business to meet the requirements of their members; but that they should be debarred from entering into forward delivery contracts in any market either on their own account or on account of their members. The granting of cash-credits, dealing in cheques, and clearing and remittance business, have all been permitted nearly everywhere for urban co-operative credit Societies, and, we think, should be encouraged in Mysore also. The discounting of inland bills may be permitted in the case of urban Banks. Urban Banks may also be permitted to advance money (irrespective of the individual borrowing power of the members as fixed by the managing committee) on the security of gold and silver ornaments, on the former up to 75 per cent and on the latter up to 50 per cent of the value.

NOTE.—With regard to advancing loans on the security of gold and silver, Mr. Ranga Rao thinks that this should only be as collateral security, the primary security being personal. Messrs. C. S. R. Rao and Natesan agree with him.

Sufficient cash balances should be kept by urban Banks with the Apex Bank, receiving from the latter adequate discount or re-discount facilities. Large urban Banks may, with the approval of the Registrar, be allowed to keep accounts with commercial Banks, especially for the purpose of discounting, clearing and remittance business.

4. *Concessions to Co-operative Institutions.*

Various exceptional privileges and concessions have been conferred by the State on co-operative institutions at the public expense. Their justification lies in the fact that it was the Government that introduced co-operation as a means of improving the economic status of people of small means by methods not otherwise open to them, and that such improvement is a matter of public concern.

The privileges and concessions which have hitherto been granted and are in force in the various parts of India including Mysore, as well as a few the grant of which has been newly recommended, may be classified under the heads—*Legal, Fiscal* and *Administrative.*

(i) Under "*Legal*" may be mentioned the following :— (i) Legal.

(*a*) The prior claim of a registered Society over other creditors in enforcing the recovery of their dues, in certain cases; that is to say, in respect of cattle, implements, raw material or other property purchased by a loan from the Society or consisting of a crop grown from seed obtained by such a loan.

This claim, which is conferred by section 19 of the Regulation, is somewhat illusory, and can only be made effective by the prior claim being replaced by a "first charge," as has been done in Bombay. Such replacement has been repeatedly recommended, and may be immediately given effect to.*

(*b*) Non-liability to attachment or sale by decree of Civil Court of the shares or interest of members in the capital of a registered Society.

(This is without prejudice to the Society's charge upon such shares and interest in respect of its own dues.)

(*c*) A special procedure (as laid down in sections 43A, 43B and 43C, and in the rules framed in this behalf) for the disposal of disputes and the execution of decisions and awards.

(*d*) Admissibility as evidence of certified copies of entries in the books of Societies. *Vide* section 26.

(*e*) Concessions similar to those enjoyed by the Land Mortgage Bank under the Regulation may now be granted to co-operative institutions in the matter of the distraint and sale of the produce of mortgaged property through the Registrar (section 66), and the registration of documents on behalf of an institution without insisting on the appearance of a representative of the institution (section 73).

As regards the desirability of extending to the ordinary co-operative Societies the benefit of the special provision enacted by Section 75 in regard to mortages executed in favour of land mortgage Banks by managers of joint Hindu families, the members of the Committee are not unanimous. Messrs. Ranga Rao, Sesha Sastri, Natesan, Reddy and Imam advocate such extension, as being calculated materially to facilitate the recovery of the just dues of Societies. Messrs. Krishna Rao, Ramanathan, C. S. R. Rao and Mehkri are opposed to the proposal, on the ground that

* As regards immovable property as security, if care is taken to see that there are no prior encumbrances, this by itself will give Societies a first charge on such property, and no further statutory privileges seem called for in this respect.

mortgages in favour of land mortgage Banks stand on a different footing from debts due to Societies, and that a concession of the kind proposed will prejudicially affect the interests of coparceners.

The Chairman is inclined to agree with the majority: the object aimed at by the proposed concession is not in any way to enlarge the provision of the existing Hindu Law, which vests the manager with an implied authority to contract debts for a joint family purpose, but simply to shift the burden of proving legal necessity from the creditor to the objector in those cases in which the creditor is a co-operative Society; in this matter of the onus of proof both classes of institutions may, in the Chairman's opinion, well be placed in the same position. The reasons for the concession in favour of land mortgage Banks, as set forth in the following extract from the Select Committee's Report on the Bill passed as Regulation I of 1935, seem to him equally applicable to co-operative Societies generally:

> "Such a provision was quite necessary if the facilities for getting loans from land mortgage Banks should be available to Hindu agriculturists who form a large portion of the population of the country. The mortgage Banks, which were bound by statutory provisions and controlled by the Registrar and the Government, stand on a different footing from ordinary creditors. Further, they would make all the enquiries which a Court would expect of them into the necessities of a loan before granting it. After all, the section shifted only the burden of proof, and did not take away the right of a coparcener or a minor from contesting the binding nature of a loan contracted by the manager of the family."

(*f*) It is desirable to exempt all Societies generally from the operation of the Agriculturists' Relief Regulation (as in Bombay), instead of providing for the grant of exemption in particular cases.

(ii) Fiscal.

(ii) The following exemptions may be grouped under "*Fiscal*":

(*a*) Exemption of the profits of Societies and of dividends to members from the payment of income-tax and super-tax. (This and the other exemptions referred to below have been granted under the power conferred by section 28 of the Regulation.)

In addition, co-operative Societies may well be exempted from payment of income-tax and super-tax on earnings from investments in public securities or land mortgage debentures, to the extent of such investments as are necessary for the purpose of their fluid resources and for the investment of reserve funds as prescribed by the rules.

(*b*) Complete exemption from payment of stamp duty, registration fees, and court fees, was being enjoyed by co-operative Societies in Mysore for several years. This was modified in 1931 as a measure of financial necessity.

Documents executed by or on behalf of a Society or by any officer or member of a Society are now charged half the stamp duty, while documents executed by Societies *inter se* continue to enjoy full exemption.

Registration is really an item of service rendered at the cost of the State, and the fees paid for such service stand on a different footing from purely fiscal duties. The Government have directed that documents executed by or in favour of co-operative Societies be charged half the scheduled rate of fees.

Both co-operative and land mortgage Societies enjoy full exemption from search fees relating to encumbrance certificates; also from the fee payable under the Land Revenue Rules for entry in the Special Notice Register.

The exemption in respect of court fee payable on suits filed by Societies in the Registrar's Court was reduced in 1931 to one-half. As this has prejudicially affected both Societies and their debtors, it is to be hoped that, as soon as financial conditions will permit of its being done, the full measure of exemption originally enjoyed may be restored. In the meantime, where a decision is passed without contest and on the agreement of parties, half the institution fee now levied may be refunded as is done in Civil Courts.

(*c*) Several witnesses have suggested that co-operative Societies as such should be exempted from payment of municipal taxes. This, however, does not seem reasonable except on the view that they are charitable or philanthropic associations, which they are not. Nor does it seem possible to support the request that goods intended for co-operative Stores should not be charged octroi duty; but Railway Companies may be induced to allow the benefit of concessional freights on such goods when carried in bulk.

(iii) Among the various "*Administrative*" concessions already being enjoyed or now recommended may be mentioned:— (iii) Administrative.

(*a*) Remittance and withdrawal facilities, in the shape of the free use of Government treasuries and sub-treasuries for remittance for *bona fide* credit transactions, transfer of funds between Societies at par by means of remittance transfer receipts, remittance of money realized

in execution of decrees held by Societies, and privileges similar to those enjoyed by joint-stock Banks in the matter of remittance facilities for other than co-operative purposes.

(*b*) Special facilities for the withdrawal of funds from the Postal and from the Mysore Government Savings Bank.

(*c*) Preference to co-operative Societies in the purchase of the requirements of Public Departments, provided no financial loss to Government is thereby caused.

(*d*) Above all, of course, is the invaluable privilege or safeguard of Government audit as a statutory responsibility.

5. *State Aid.*

General policy of Government.

The policy in regard to State aid to the co-operative movement is crystallizing round the view that the movement has been sufficiently long at work to be as a whole self-contained and self-supporting, and that, in the interests of the movement itself, Government must disclaim responsibility for the provision of direct financial assistance. Such a view was, in fact, definitely enunciated by the Government of Mysore in an Order of 4th May 1915. It cannot be denied that a system of money doles and undue special concessions takes away from, if it does not destroy, the spirit of self-reliance which is the best guarantee of a genuine popular movement for economic regeneration.

But while direct financial aid should not be expected as a matter of course, there are directions in which assistance from Government is legitimate and desirable.

To begin with, it is of course clearly incumbent on Government to provide adequate and efficient audit, supervision and advice for co-operative Banks, dealing as these do with a large and constantly increasing amount of money deposited by the public. Apart from this, it is also possible and desirable that these institutions should be placed, through the Registrar, in touch with the general money market and so given access to ampler, cheaper and surer sources of capital than the irregular stream of public deposits.

As a form of legitimate assistance not involving departure from principle, financial aid should be, as it has been in the past, given by the State to encourage new Societies and new forms of co-operation, as well as extensions in particular directions. Under this category will fall contributions to the expenses of the movement in

backward tracts and among the backward classes ; liberal assistance in the early stages to the more specialized forms of co-operative activity such as consolidation of holdings, adult education, irrigation, and the like; initial advances to Weavers' Societies; advances to industrial Societies for the purchase of machinery; advances at concessional rates and for sufficiently long periods for the development of co-operative production, sale and marketing, and for the building of warehouses and godowns in centres which provide good markets; and long-term loans to building Societies, to be advanced every year up to a reasonable limit of anticipated requirements and actual progress.

In the early stage of the land mortgage scheme, large advances from Government may be indispensable. But as the Land Mortgage Bank is able to rely more and more on debentures issued by it, the appropriate form of State aid will be the guarantee of interest on the debentures.

Finally, the spread of co-operative education and the provision of suitable institutions for teaching and training are as much proper objects for State aid and patronage, as they are for active support from co-operative institutions.

6. *Accounts and Returns.*

Accounts.

Every credit Society is required to maintain the accounts and books prescribed by the rules.

The cash-book should be totalled every month, the running total being entered below it.

The loan account should mention the object of the loan as stated in the application and checked by the committee. The proper application of money advanced should be carefully watched. In this connection, the taking of proper bonds or pro-notes is very important.

The ledgers in urban credit Societies should have daily balances thrown out, and interest should be calculated on the decimal product system. In rural Societies what is required is a simple ledger with enough columns to suit the Society's ordinary transactions.

Property statements in agricultural credit Societies should be in stitched volumes, and should contain full details of properties. The statement should be revised every year, and should be verified by the Auditor.

All accounts generally should be in permanent book or ledger form, not in the form of memoranda which are afterwards thrown away.

Financial Statements.

The committee of every Society is required to publish (a) an annual balance sheet showing the assets and liabilities of the Society, (b) a profit and loss account, and (c) a statement of receipts and expenditure. It will be desirable to make copies of these available to depositors as well as to shareholders.

The balance sheet must be a clear statement of the position of the Society, and should show deposits and loan instalments falling due each year, and also extensions and overdues.

Where rural Societies are unable to prepare the financial statements unaided, they should receive help from the auditing or supervising staff, or the returns prepared by the auditing staff may be accepted.

Central institutions should prepare sufficiently full and detailed balance sheets; and should, in addition, submit to the Registrar a quarterly statement of their financial position, especially with reference to their liabilities to outside creditors and their progress in the formation of a fluid resource.

Central institutions should be supplied by the Registrar with copies of all returns received from affiliated Societies.

CHAPTER VIII.

Long-term Finance.

1. Types of Credit.

Requirements of Agriculture.

The normal requirements of agriculture involve funds of three kinds: fixed capital, to be sunk permanently or for a long period in the acquisition or improvement of land and in the purchase of equipment; circulating capital, to be used for short periods in growing, harvesting and marketing the crops; and capital for an intermediate period, for such objects as the purchase of bullocks and the more expensive machinery and for minor improvements, which can be repaid in from two to four years. The discharge of prior indebtedness falls in a different category.

These various requirements entail different forms or types of credit to satisfy them, according to the periods for which financial assistance is required and the appropriate source of repayment. Periods and purposes are in fact closely inter-connected. Productive outlay can only be repaid from the returns obtained by the outlay, whether they represent the yield of the next harvest or the savings of a number of years.

Classification of purposes.

The general principle that the period of a loan should be long enough to allow the borrower to make repayment from the proceeds is at the base of the various classifications of purposes, with corresponding periods for repayment, which have been advocated from time to time.

The classification adopted by the Indian Central Banking Enquiry Committee is in some respects the most convenient. The normal credit needs of the cultivator are separated into two broad classes:—

(1) Short-term credit and intermediate credit, to meet current out-goings and to facilitate production.

These would include the buying of cattle and agricultural implements (or the hiring of them), the purchase of manure and seeds, the expenses of cultivation including harvesting, the maintenance of the farmer and his family, the payment of revenue and rent, and outlay on various items of improvements effected in the ordinary course of husbandry.

(2) Long-term credit, for obtaining fixed capital to be invested permanently or for long periods.

This is required for the purchase of land, the acquisition of costly implements, the consolidation and improvement of holdings, as also the repayment of past debts.

The first class, or short-term and intermediate credit, is secured mostly on personal guarantee and temporary agricultural wealth, while the second, or long-term credit, is based upon the permanent agricultural wealth in the shape of land or buildings.

The cultivator also requires credit, which may be either short-term, or intermediate, for the marketing and movement of produce, and for small rural and cottage industries.

Maximum periods of loans.

The Government of Mysore (in an important Order of 15th November 1927) definitely expressed the view that "the existing co-operative Societies in the State are not qualified to undertake the work of the liquidation of old debts on any appreciable scale." Nevertheless, it is stated in the Report on Co-operative Societies in the Mysore State for 1933-34 that "long-term credit has predominated over short-term credit, and that loans for the discharge of previous debts, land purchases and improvements, and house-building, have all along been more popular and attractive than loans for current needs."* It would appear that long-term loans are nearly equal in volume to short-term loans. In a previous Report, the fact that ordinary credit Societies finance their members for debt redemption purposes which, in the nature of things, cannot be repaid within the maximum period of ten years allowed, was given as one of the reasons for the high percentage of overdues.†

Short-term and long-term loans involve different considerations.

Apart from the adequacy of the resources of co-operative institutions, there are other considerations which have a close bearing on the matter.

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* Page 8, para 34. The Report adds: "Even loans obtained for short terms and expected to be paid back within a year or shorter period have, as a matter of fact, by renewals and otherwise, become annual instalment loans. The main portion of the business of the Apex Bank has indeed been along the line of redemption of previous debts and advances for purchase and improvement of land, or in short, land mortgage banking; and doing this business through unlimited rural primaries, it has, until the hard days of the depression crept in recently, done it fairly successfully in spite of the relatively short period of the currency of the loan (being five to ten years). Nearly 75 per cent of the (Bangalore) Central Bank's transactions is also in long-term mortgage loans granted to individuals direct. Even the urban primaries lend fairly largely for long terms, for debt discharge, house-construction, etc. Indeed the period of repayment in the premier primary Bank, the City Co-operative Bank at Bangalore, extends over 240 months or 20 years; and many other urban Societies in the cities of Bangalore and Mysore, though as it is, they are lending for fairly long periods (five to ten years) are desirous of further extending them, and have been doing this from short-term deposits."

† Administration Report for 1931-32, para 28.

An important factor in determining the period for which loans may be granted by an institution is the period for which it will have deposits or other funds to finance them. Since agriculture seldom yields any return under four or five months, six months may be taken as the minimum period for the repayment of loans taken for ordinary cultivation expenses. But agricultural loans are often required for longer periods, and this necessitates special care in the taking of deposits to meet them. It is not because of the shortage of money, but because of the shortage of sufficient long-term money, that ordinary credit Societies and Central financing institutions are not in a position to meet all the requirements of their members in the way of long-term loans for land improvements, the clearing of prior debts, and the like. This, as a matter of fact, is the very reason why a scheme of special land mortgage Banks has been evolved in various parts of India in order to attract more long-term money into the movement.

Another consideration is that based on the nature and incidents of unlimited liability, which is a special security which cannot be speedily realised on any large scale. The fact that it ceases two years from the cessation of membership suggests that in general loan transactions should be completed within this period. Liability for loans for longer periods might fall solely on the staunch members if others withdrew. It is possible, too, that much of the property of members might not be available to the Society when the period for a long-term loan had run its course.

Again, it is a central principle of co-operation that security should be personal. And so it is a distinguishing characteristic of co-operative credit that the primary security for all loans is personal. The Maclagan Committee thought that the mortgage of land should only be required as a form of collateral security in addition to sureties, or to prevent alienation to outside parties. Mortgage security involves various inconvenient incidents, in such respects as the locking up of funds in immovable property, the contingency of having to purchase property in execution and to make arrangements for its management and cultivation, and for the payment of land revenue, and so on. Though this by itself does not forbid the grant of long-term loans, it suggests the desirability of restricting the grant of advances to the kind of security that is most appropriate and convenient from the standpoint of co-operative business.

Sphere of ordinary Co-operative Institutions.

Rural credit Societies, speaking generally, cannot be in a position, out of their ordinary working capital, to do more than meet the current requirements of their members. It is true that pressure is often brought to bear on them to issue loans for comparatively long periods; but this is mainly due to the absence of other facilities for borrowing. As for Central institutions, they are naturally glad of finding an occasional outlet for their surpluses in the shape of investments in long-term advances; but it is doubtful if they can take up the financing of long-term needs systematically as a regular part of their functions. The question here is one not of occasional investment but of normal functioning.

Writing in 1923, the Mysore Co-operative Committee expressed the view that Central financing institutions should confine their activities to the financing of primary Societies for the annual requirements of members, and that while personal or short-term credit fell ordinarily within the scope of the existing Central financing institutions, it was advisable to have special arrangements for long-term credit on mortgage in the shape of land mortgage Banks.

As pointed out by the Indian Central Banking Enquiry Committee, opinion on co-operative credit has now crystallized round the idea that these two varieties of credit cannot be supplied by the same type of co-operative organization, and that two different types of them are indispensable. The Committee added that, "in the interests of both the movement and the borrowers, [the ordinary credit Societies] should confine themselves to dispensing short and intermediate credit. Long-term credit can be provided with any degree of safety and success only by land mortgage Banks."

Future Policy.

There can be no doubt that this is the right policy to adopt for Mysore, and that the combination of short and long-term finance is inadvisable and likely to lead to disastrous results. Long-term finance is beyond the normal sphere of co-operative credit institutions and should be left entirely to land mortgage and other special institutions. Some elasticity is at the same time needed in the classification of purposes and periods. Thus, the description "short-term" may include advances up to five years, those ranging between five and ten years being classed as "intermediate"; loans for periods exceeding ten years will then fall under "long-term." The policy indicated must be given effect to steadily and systematically, so as to

correspond with the extension of land mortgage and other long-term facilities. Assuming that land mortgage institutions will at no distant date take up the work of debt redemption as a whole and the financing of land improvement in all cases where the amounts involved are not below Rs. 500 and the period of repayment exceeds ten years, all other credit business will remain within the sphere of co-operative institutions (both primary and central). These should be required in the meantime to be cautious in the matter of giving long-term loans.

2. *The Land Mortgage Scheme.*

History of Scheme.

The establishment of a land mortgage Bank was one of the chief solutions put forward for the long-standing problem of agricultural indebtedness in the Malnad. It was urged more than once by the Economic Conference. The Co-operative Committee of 1923 worked out a detailed scheme for the organization of a land mortgage Bank on co-operative lines,—with a share capital of Rs. 10 lakhs and the power to issue long-term debentures up to Rs. 50 lakhs,—with a view to advancing the necessary funds to *bona fide* land owners (at first directly, and later on through special Societies formed for the purpose). The Malnad Improvement Committee of 1925, which had to consider the report of a special economic survey of parts of the Malnad, placed in the forefront of its recommendations the establishment of separate land mortgage Banks, one for each of the Malnad Districts. In view of the novelty of the scheme, which was still in an experimental stage in British India, the Government decided to move cautiously in the matter; and it was not until after another mixed Committee of officials and non-officials had reported in favour of entrusting the task of providing long-term credit to agriculturists to a Central institution with jurisdiction over the whole State—preferably the existing Provincial Co-operative Bank—that final orders were passed on 10th April 1928, sanctioning the establishment of a land mortgage Bank as a provincial institution independent of the Provincial and other co-operative institutions.

The operations of the new Bank were to be limited in the first instance to one Taluk in each of the three Malnad Districts of Shimoga, Kadur and Hassan, and one Taluk in the Maidan District of Tumkur. The local work of the Bank was to be carried on through primary institutions to be specially formed, which would receive

and report on loan applications, and make short-term advances out of their own funds. In exceptional circumstances where the formation of a local Society was difficult, the Bank was empowered to deal direct with applicants for loans not below Rs. 2,000. The share capital of the Bank was fixed at Rs. 5 lakhs, and the Bank was authorised to issue debentures up to Rs. 20 lakhs, the Government guaranteeing payment of interest not exceeding 5 per cent, and also agreeing to invest a sum of Rs. 5 lakhs in the debentures issued. The concessions sanctioned in favour of co-operative Societies as regards exemptions from stamp duty and registration and other fees were extended to the Bank.

The Registrar of Co-operative Societies was placed in control of the scheme; and a whole-time Deputy Registrar was appointed to make the preliminary arrangements. The Co-operative Societies' Regulation was amended with a view to bring the Land Mortgage Bank within its purview; a set of rules was framed under it, and the first body of directors was nominated. Finally, on the 25th November 1929, the institution was registered as " the Mysore Co-operative Land Mortgage Bank, Limited;" but it began to sanction loans only in July 1930.

The operations of the Bank, at first confined to the four Taluks mentioned, have since been gradually extended over 18 Taluks, three Sub-Taluks and portions of two Taluks in the different parts of the State. Including the affiliated primary Societies, which now number 19, the Land Mortgage Bank had, at the close of the year 1934-35, a membership of 229 (both Societies and individuals together), a paid-up share capital of Rs. 51,875, and a debenture capital of Rs. 3,08,500; and, so far, it has sanctioned loans to the extent of Rs. 4,71,895. The primary Societies hold 611 shares in the Bank; they have a membership of 2,023, and a paid-up share capital of their own amounting to nearly Rs. 50,000. Since their inception the Societies have drawn from the Land Mortgage Bank a sum of Rs. 2,55,675 for disbursement to their members, out of a total of Rs. 3,83,745 sanctioned; and their total turnover for the year 1934-35 amounted to very nearly Rs. 3 lakhs.

Working of Scheme:—Funds.

The funds of the Land Mortgage Bank comprise share subscriptions, deposits, debentures, and grants and other miscellaneous items. It is provided in the by-laws that the liabilities of the Bank (by way of deposits, debentures

or otherwise) shall not exceed sixteen times the subscribed share capital *plus* reserve fund.

The share capital of Rs. 5 lakhs is made up of 10,000 shares of the value of Rs. 50 each.

Deposits.

The Bank is authorized to receive deposits; but, as a matter of policy, since it does not issue short-term loans, it does not receive deposits, unlike the ordinary co-operative credit institutions. As it gives only long-term loans for over 25 years, it has to obtain the necessary finance by the issue of debentures secured on the properties mortgaged to it.

Debentures.

Three series of debentures have so far been issued, with the approval of Government and under their guarantee for payment of principal and interest. The Government have also offered to invest a sum of Rs. 5 lakhs in the debentures. The first series, floated in April 1930, was for Rs. 3 lakhs carrying 5 per cent interest free of income-tax. After bonds to a total extent of Rs. 2,18,500 had been issued, further issues were stopped in view of the falling market rates of interest. A second series of debentures, carrying 4½ per cent interest, was floated in November 1933; but this again was stopped after the issue of bonds to the extent of Rs. 62,500, in consideration of the high premium commanded in the market. A third series of debentures carrying 4 per cent interest has since been floated for Rs. 4 lakhs.

These bonds, bearing as they do the guarantee of Government, are reported to be popular. They will be still more so if facilities be given to holders to raise loans on the security of them in any co-operative Society. In this way, and by recognizing them as a suitable form of investment for trust and other funds, they may become virtually gilt-edged securities.

The maximum amount of interest-bearing debenture loans which the Bank is authorised to issue is Rs. 20 lakhs, having a currency not exceeding 30 years. Bonds are however liable to be redeemed or re-purchased at the option of the Bank after a period of ten years from date of issue.

The capital raised by way of debentures is ear-marked wholly for the grant of long-term loans on the mortgage of agricultural land; short-term loans, if any, have to be granted out of share capital and deposits.

Management.

The powers of the general body and of the Board of Directors are precisely defined in the by-laws. The former (subject to the control of Government and of the

Registrar) is "the ultimate authority in all matters relating to the administration of the Bank;" and various important functions are specifically assigned to it. The administration of the affairs of the Bank generally is entrusted to the Board of Directors, consisting of a President and one member nominated by Government, and 12 others of whom two must be representatives of debenture-holders and at least six must be representatives of the affiliated Societies. The powers and duties of the President and the other office-holders are also specified. The Secretary must be a salaried officer, appointed by the directors subject to the approval of Government, and is responsible for the executive administration of the Bank, subject to the President's control.

Trustee. The Regulation provides for the appointment of a Trustee by Government to secure the fulfilment of the Bank's obligation to debenture-holders. This office is now held by the Comptroller to Government.

Credit transactions. As regards the credit transactions of the Land Mortgage Bank, the Regulation authorizes it to grant loans (secured by mortgage) for the following purposes:

(*a*) for the redemption of subsisting mortgages on agricultural land;

(*b*) for the liquidation of other prior debts of agriculturists;

(*c*) for the improvement or the better cultivation of agricultural land; and

(*d*) for current agricultural operations.

A loan for current agricultural operations is not however to be given except to a member who has been previously granted a loan for any of the other purposes specified and whose mortgage is subsisting. (Section 58 (3).)

Short-term cultivation loans. In the by-laws of the Land Mortgage Bank current agricultural operations and the better cultivation of land are classed together as purposes for which short-term loans are admissible in the case of members who have already taken long-term loans for the relief of prior indebtedness.

As a matter of fact, however, the Bank has not been granting such short-term loans; and though the question was raised more than once, the Board of Directors has adhered to the position that the work cannot be undertaken by the Bank. The chief reasons actuating the Board would appear to be, that the two classes of transactions are different in nature, that the share capital of

most of the primary Societies is insufficient, and cannot be utilized for short-term loans without diminishing the security available for the holders of the Bank's debentures, and that the attraction of capital through short-term deposits is, on the one hand, likely to interfere with the financial resources of the ordinary credit Societies, and will, on the other, entail a corresponding reduction in the long-term money which the Bank is authorized to raise.

The question involved is an important one, and has been specifically referred by Government to this Committee for consideration.

Purposes connected with debt redemption and the improvement of land require as a rule loans for long periods, while current agricultural operations require loans for very short terms only. The business of short-term credit involves different considerations from the business of long-term credit (in regard to such matters as the assessment of borrowing capacity, the security for the loan, the provision of finance, the procedure for recovery of dues, etc.) On general principles, therefore, it is right that land mortgage institutions should confine themselves to long-term finance, leaving the ordinary credit Societies to undertake short-term credit.

But in those cases in which a person has already mortgaged the whole or the best part of his income producing property to a land mortgage Bank as security for a long-term loan and the mortgage is subsisting, it will be very difficult, if not impossible, for him to raise money elsewhere for current agricultural purposes, especially as the Bank (under the newly added section 66) will also have a lien on the standing crops and other produce of the mortgaged property in respect of the instalments payable under the mortgage. Unless the Bank comes to his aid in this matter, he will, it is obvious, be left helpless in the generality of cases. Having regard to the facts that the land and its produce form the security for the loan to the Bank, and that the permanent value of the land depends largely on its efficient cultivation, and the power of repayment on the produce the owner is in a position to raise, it cannot be gainsaid that the Bank has itself a real interest in seeing that the debtor has reasonable accommodation for the current expenses of cultivation. It is not unreasonable that, when a land mortgage Bank lends money on the security of land, it should also provide a small margin for working expenses in the shape of a floating advance which will be a first charge on each year's

crop. It was no doubt on considerations like these that provision was deliberately made in the Mysore enactment permitting of the grant of loans for cultivation expenses in the circumstances contemplated. The bulk of the opinion available to us (other than that of some of the Directors examined) favours such a policy; and we have ourselves no hesitation in recommending it for adoption.*

If the decision of Government be in favour of enforcing this policy, the Bank will no doubt be able to solve the subsidiary question of funds without much difficulty (by the attraction of the necessary amount of short or medium term deposits, or by advances from the Apex Bank, or otherwise).

Transfer of existing long-term loans.

At this point it may be convenient to refer to the question how far it will be feasible to transfer the existing long-term loans in the ordinary credit Societies and Central institutions to the Land Mortgage Bank. A few such may no doubt be taken over without difficulty. But a transfer on any large scale is understood not to be practicable in view of the fact that the majority of the debts cannot satisfy the conditions laid down by land mortgage Societies. In most cases, in fact, the borrowers have not enough repaying capacity, and cannot pay the annual instalments including interest from the income of the mortgaged properties; nor have they enough means from other sources to maintain themselves and their families.†

Limits of Loans.

Land mortgage institutions are intended primarily for the assistance of agriculturists of ordinary and of limited means. They are not meant to help the proprietors of big estates who raise commercial crops for which large capital is required. Accordingly, the minimum and maximum limits of a loan to an individual member are fixed at Rs. 1,000 and Rs. 5,000, respectively, when issued by the Bank, and at Rs. 500 and Rs. 5,000, when issued by an affiliated Society.‡ It has however been represented from many quarters that the minimum limit of Rs. 500 tends to shut out many persons whose needs are more

* The last Provincial Co-operative Conference (held in October 1935) also expressed itself in favour of land mortgage institutions granting short-term loans, with a limit of Rs. 250 in each individual case, for the purpose in question.

† In the Madras Presidency, where a special investigation was made into this question, it was found that a only very small percentage (about five per cent) of the ordinary credit Societies' loans could be taken over by the Land Mortgage Banks. *Vide* Report of the Madras Co-operative Department for 1932-33.

‡ No individual member is entitled to a loan exceeding 20 times the amount of his paid-up share; and likewise no Society must at any time be indebted to the Bank by way of principal to a larger extent.

moderate, and that it may be lowered to Rs. 300 in the interests of the smaller agriculturists. This may be done, provided the minimum period is also reduced to twenty years; otherwise, the yearly instalments will be too small.*

Rate of interest.

The rate of interest charged on loans, namely eight per cent, is too high under existing conditions, and far beyond the capacity of the ordinary agriculturists. This doubtless is one reason why fuller use has not been made of the credit facilities offered by land mortgage institutions. It cannot be denied that so long as the rates of interest charged are higher than the ordinary return from land (even including the agriculturist's labour) no permanent relief to agriculture, and consequently no material reduction of agricultural indebtedness, is possible. If this task is to be adequately discharged, land mortgage institutions must be placed in sufficient funds to be able to grant loans at rates not higher than the net return from land after allowing for the cultivator's subsistence.

Considering that the majority of the agricultural population are indebted to the extent of more than 50 per cent of the value of their holdings, and that the net return from agriculture rarely exceeds 6 per cent, the rate of interest charged to borrowers should not, as a rule, exceed that percentage. In Madras it is understood that the rate has been reduced to 6 per cent. The Mysore Land Mortgage Bank, however, charges interest at 8 per cent, partly for the reason that the first and second series of its debentures were issued at five and four and half per cent, but chiefly because, it is said, the extent of the Bank's business is at present so small that the return from it, even charging eight per cent interest on loans, is insufficient to meet its working expenses.

It may be observed here that the working expenses of the Bank were at first wholly, and then for some years partially, met by Government. It is expected by the Board that, if the Government will continue to help the Bank with an annual grant of about Rs. 5,000 for two or three years more, it will be possible, allowing for the natural expansion of business, to bring down the rate of interest on loans to six per cent within that time. We recommend that the concession asked for may be granted on the understanding that immediate effect is given to the lowering of the rate of interest.

*In the Central Provinces the minimum limit is fixed at Rs. 250, and the minimum period at 20 years.

Even without such extraneous aid, and under normal conditions, allowing a margin of one and half per cent for meeting expenses, it ought not to be difficult for the Bank to lend at six per cent the money it is able to get at four and half per cent or less.

Security. Long-term loans granted must not, according to the by-laws, exceed 50 per cent of the value of the property mortgaged. The Government have since decided, on the recommendation of the Agriculturists' Relief Committee, to increase the maximum limit to 70 per cent of the *present* market value.

In view of the fluctuations in the value of coffee lands, and of the possibility of having to follow up long-term loans with further advances for maintenance and upkeep of the gardens, it has been decided not to grant loans on the security of coffee estates except in the rare cases where the applicants are prepared to offer collateral security and are not obliged to resort to loans annually for meeting their working expenses.

Valuation and investigation. The valuation of properties offered as security was at first made by officials lent to the Bank for the purpose. It has since been tacked on to the Circle Inspectors of Co-operative Societies as a matter of economy; but this does not appear to be a satisfactory arrangement, as the Inspectors cannot do the work promptly along with their ordinary duties of a varied character. Valuations should be made by persons with some local knowledge and experience. A paid staff for the investigation of loan applications seems quite necessary in addition to the local committee members. The cost of such staff will have to be borne by Government for the next few years, after which the Central Land Mortgage Bank should bear it, the affiliated Societies contributing to the cost from the realizations under appraising fee.

Delays in granting loans. There have been many complaints of inordinate delay in the disposal of loan applications, as well as in the disbursement of the amounts after loans are sanctioned.

A certain amount of time must necessarily be occupied in making valuations, investigating titles, ascertaining the existence of previous debts and encumbrances, and so on. Apart from this, the information supplied by applicants is, it is said, often incomplete, and they do not readily furnish the particulars called for. Also, investigations by the committees of Societies are often defective, and the loan records have accordingly to be returned and re-submitted.

Titles are not always properly scrutinized. Applicants often grossly exaggerate the value of the properties offered as security, and even sometimes the extent of their indebtedness. Where the security offered is adequate, the repaying capacity is often found to be poor or doubtful. The result is that a good many applications have had to be rejected by the Bank on the result of the investigations made by the valuators. The percentage of rejections was at one time nearly 75 or 80; it has now been reduced to about 25, which seems itself capable of reduction. It must also be acknowledged that the procedure adopted by the Land Mortgage Bank in the past has been rather too elaborate and rigid.

It certainly seems possible to simplify the methods considerably and thereby accelerate business without any sacrifice of efficiency. Among the various suggestions that have been or may be made for this purpose, the following deserve special attention :—

(*i*) Applicants should, as a rule, be required to obtain the necessary extracts from the Record of Rights and the certificates of village officers. Where they have not done so, the Secretary of the Society may be empowered, without reference to the committee, to call for the same, as also for title deeds or other documents required.

(*ii*) Instead of the entire committee, the President and the Secretary jointly may themselves be authorized to refer the application, where it is *prima facie* maintainable, for investigation to two committee members.

(*iii*) The investigating members should during their investigation procure any other information required from the applicant and obtain any statements to be taken from other persons. There should be free consultation between the members and the officer making the valuation.

(*iv*) The Society, when recommending the loan, should forward the connected reports and references direct to the Land Mortgage Bank, instead of through the Registrar's office.

(*v*) When the loan is sanctioned by the Bank, it should send intimation of the fact to the Society, as also a draft bond to be executed by the applicant and a cheque for the sanctioned amount.

(*vi*) The committee of the Society should thereupon at once apply for the Sub-Registrar's encumbrance

certificate; and after satisfying itself that there are no other encumbrances, it should get the bond registered, and arrange to make payment to the creditors of the applicant.

While competent legal advice is a desideratum, this at present has to be honorary in the primary Societies. The fact that there are lawyer members on the committees of most of them is no doubt an advantage in this as in other respects.

Arrears.

Recoveries have been very unsatisfactory. There are heavy arrears outstanding both against Societies and against individual members. Most of the indebted members have, in spite of pressure, failed to pay their instalments on the due dates, the reason generally assigned being the adverse seasonal conditions and the fall in the prices of agricultural produce, including areca and coffee. Unless prices recover, the contingency may have to be faced of a good proportion of the advances becoming irrecoverable.

Profits and Reserve.

As the result of the heavy arrears and poor recoveries, no substantial profit has been made so far. The reserve fund, consisting of the yearly allotments of not less than 10 per cent out of net profits, now stands only at Rs. 3,825.

General results.

When the Bank first started operations, there was a rush of applications for loans; but it was soon found that most of the debts sought to be redeemed—contracted when land values were high and repaying capacity good—were with the altered circumstances quite outside the scope of the Bank's business. Here, as elsewhere in India, there was a wrong impression that once land mortgage Banks were established, all the heavily indebted agriculturists would get long-term loans for repaying their creditors. People were slow to learn that only those could be financed who were able to offer adequate security and might be reasonably expected to repay their loans by instalments, within the prescribed period of years, from their net income (after leaving enough for their own maintenance). Thanks to the easy money conditions, the Central Land Mortgage Bank has not found much difficulty in obtaining money for its task; even its latest four per cent debentures are being taken up at a premium. Its difficulty is rather in finding sufficient business for the funds at its command, which is only to be secured through a steady expansion of the sphere of its operations.

Extension of scheme.

There is at present a general demand for the forma-

tion of land mortgage Societies. But though the scheme must eventually be extended throughout the State, conditions are not everywhere equally favourable to its early introduction. Those areas must be first taken up where, owing to the relative certainty of the crops, the punctual payments of instalments may reasonably be expected. It is also necessary to select Taluks into which the Record of Rights has been or will presently be introduced. And finally, apart from the capital required,—which can however be raised without difficulty so long as the debentures are guaranteed by Government,—the operations in each area taken up must be sufficiently extensive to make the work self-supporting.* In the interests of efficient management and supervision, the area of operation of each Society should ordinarily be confined to one Taluk, except in the initial stages when the necessary amount of business is not forthcoming, in which case one or two additional Taluks may be temporarily included.

Problem of rural poverty.

The relief so far given by the Land Mortgage Bank and its primary Societies is admittedly inadequate. Very many of the cases that have come up are such as cannot be helped at all, owing to the applicants being already indebted to the fullest extent of their creditworthiness, or to poor repaying capacity, or the want of adequate security. Some at least of these cases might be helped if a scheme of debt conciliation (on lines to be referred to presently) were brought into force. It may be as well to state here our deliberate opinion that all such measures are at best palliatives and can only touch a small percentage of the total indebtedness. The final solution of the problem of rural poverty lies in a material improvement of the economic position of the raiyat population, through the steady pursuit of a policy aimed directly at that end. Such a policy will make provision, among other things, for actively helping the agriculturist to adopt improved methods of cultivation familiarized through demonstration and instruction, and by the advance of any necessary capital; for the introduction of subsidiary occupations which will tend to add to his ordinary income from agriculture; and for the gradual expansion of education among the rural population.

*For a land mortgage Society to function successfully, it is estimated that it should have loan transactions every year to the extent of at least one lakh of rupees, which (taking the margin of net profit at one per cent) will yield an income just sufficient for its working expenses.

3. *Rural Indebtedness.*

Any consideration of rural credit in relation to the co-operative movement necessitates some reference, however brief, to the very important and urgent question of rural indebtedness. This question has been examined in its various aspects by, among others, the Royal Agricultural Commission and the Indian Central Banking Enquiry Committee in British India, and by a Committee appointed by our own Government to report upon the nature and extent of the assistance to be given to the agricultural classes in the State in view of the present depression. This last Committee has submitted a comprehensive and exhaustive report, upon which final orders have been recently passed by Government.

Apart from occasional enquiries into the circumstances of particular localities (such as the Malnad and the Kolar Gold Fields), no systematic general survey of economic conditions in the State has been conducted under the authority of Government. Without such an enquiry, comprising both rural and urban areas, and covering the various aspects of social and economic life—occupation, conditions of labour, family income and expenditure, savings and borrowings, housing, sanitation and health, education, recreation, and so on,—statements and conclusions about the condition of the people have to be largely general and approximate, where they are not hypothetical.

Economic position of the raiyat.

Of the total population of the Mysore State,—which was a little over 6½ millions in 1931,—quite 84 per cent live in rural areas, engaged directly or indirectly in agricultural occupations. The percentage for British India is about 67. One-ninth of the total population of Mysore live in the Malnad parts. There are about one million registered holdings, the great majority of which comprise less than 10 acres each; the acreage would be very much less if account were taken of the numerous sharers and subordinate holders included in each holding. It may be taken that this corresponds more or less roughly with the extent of an average holding in British India, which is about six acres for an agricultural family of five persons.

The average yearly income of an agriculturist in British India was put at about Rs. 42 by the Indian Central Banking Enquiry Committee. The average income of a Mysore raiyat, though variously estimated by different authorities, does not, according to the best

accounts, exceed Rs. 35 or 40 per year*. This fact not only explains the low standard of living characteristic of the raiyat, but also accounts in part for his chronic and hopeless indebtedness. Though such indebtedness has always existed, it has by all accounts risen considerably during the last fifty years. The average indebtedness of the agriculturist in Mysore has been roughly estimated at Rs. 50, the same as in British India; there are, besides, villages in which hardly a family is free from debt.

The economic position of the raiyat, bad enough as it has been even in normal times, has been seriously worsened during the last five years by the persistent decline in the world prices of agricultural commodities. The Mysore Agriculturists' Relief Committee has roughly estimated the extent of the fall of prices for the Mysore State at nearly 50 per cent, and also traced its effects on the different classes of the agricultural population. The result in the aggregate has been to enhance the already heavy burden of indebtedness and to curtail materially the credit available to agriculturists.

Reasons for indebtedness.

There are many reasons why the agriculturist is obliged to borrow. The most important and common reason is past indebtedness, which occasions fresh borrowing due mainly to the high rates of interest charged. The creditor draws away from the raiyat every year the best part of his earnings, and what is left is insufficient for his needs. Other reasons are the small size of his holding,

*The following extracts bearing upon the point may be of interest:—

"If 80 per cent of the total population of the State should be taken to depend materially on the land, and the total value of the agricultural production at present is reckoned as 18 crores of rupees, the earnings per head of the population per year work up to only about Rs. 35." P. 10, Report on the Progress of Agriculture in Mysore, 1926, published by the Department of Agriculture.

"The income per head in the State has been stated to be about Rs. 30 per year..... The average agriculturist cannot be getting much more....." P 40, Mysore Census, 1931, Part I, Report.

"The annual agricultural production of the State was estimated in 1915 at about Rs. 14 crores, and the industrial production at Rs. 4 crores, making a total of 18 crores, or an average production of Rs. 31 per head of the entire population. In good years, with prices ruling high, this rate may go up to Rs. 37 or Rs. 40 per head." P. 419, Mysore Gazetteer, Vol. III, 1929.

"In Mysore the corresponding figure (*i.e.*, value of farm produce calculated per head of population) is Rs. 24." Ibid P. 49.

"The *per capita* income for Mysore in 1912-13 was Rs. 47-9-10 or roughly Rs. 48, and in 1922-23 it was Rs. 68-7-10 or roughly Rs. 68. Corresponding figures for British India are Rs. 44 in 1914 (Wadia and Joshi) and Rs. 74 in 1922 (Shah and Khambata) and Rs. 116 in 1922 (Findlay Shirras)." ("The National Income and Taxable Capacity of Mysore" by V. L. D'Souza, 1927, page 13)

"Where rainfall is precarious and uncertain and the soil shallow and poor, the income from all sources per head in a typical village (in British India) has been calculated at Rs. 33-12-0 per annum as against a minimum of expenditure necessary for real needs in respect of food and clothing at Rs. 44 per annum." (Rushbrook Williams).

"We arrive at a figure of Rs. 11-12-0 as the income per head of rural population (in Madras Presidency) in 1933-34. Prof. B. V. Narayanaswami of Annamalai University calculates the *per capita* income of the agriculturist at Rs. 7-8-0. My figure of Rs. 15 may perhaps be too optimistic." (Satyanathan Report, 1935, page 12).

and the way it is split up, his constantly recurring losses of cattle from drought and disease, and the insecurity of crops which aggravates the cumulative effects of the other factors.

Another very potent cause is the decline in the cottage industries, which used to provide the raiyat and the members of his family with subsidiary occupations in the off-season, but which have been largely wiped out by the competition of machine-made articles.

There is no doubt, at the same time, that there has been a considerable increase in the population living on land without any corresponding increase in production. Agriculture has in a large measure ceased to be an industry carried on for profit and become predominantly a food-producing agency. "The cultivator labours not for profit nor for net return, but for subsistence."

It is no wonder, under all the circumstances, that the agriculturist, handicapped as he is by ignorance and illiteracy in addition to improvidence, has constant recourse to borrowing for all his needs, whether for current agricultural purposes or land improvement, for domestic wants, or for periodical unproductive expenditure on marriages, funerals and other ceremonies.

The Money-lender.

This brings us to the local money-lender, who has always provided the greater portion of the funds required for all these purposes.

No one, as observed by the Royal Commission on Agriculture, denies the services rendered by the money-lender; the charge against him is that these services are rendered at too great a price, and are accompanied by practices which result in great evils. "The system is usurious; the ready lending for unproductive purposes leads to poverty and economic servitude; the steady absorption of rights in land places the money-lender in a position of uncontrolled power, and uncontrolled power is almost invariably abused. Often the cultivator is obliged by reason of his indebtedness to sell his produce to his creditor at an unfavourable season and at a price detrimental to himself."

It has also been pointed out that to the chronic state of indebtedness on the part of the Indian cultivator is to be attributed the existing unsatisfactory system of agricultural finance, under which no clear distinction is drawn between loans required for short and long periods. It is the village money-lender who furnishes the bulk of the funds required in both cases, and he is not interested in distinguishing the objects to which these funds are applied.

In the present condition of rural economy in India, the money-lender is recognized to be a necessity. He alone is in a position to provide the bulk of the capital required for current agricultural needs, and on a recurrence of severe distress he will continue, as in the past, to support the people by timely loans. If he is ever driven from the land, it will not be by legislation, but by the growth of the co-operative movement and, more especially, by the habits of thrift inculcated by that movement.*

As things stand, however, money-lenders do not as a rule look upon co-operative Societies as serious rivals. Instances have come to notice in which money-lenders have got into the management of village Societies as office-bearers and dumped all their bad debts on to them, with the result of seriously crippling their resources. Apart from this, money-lenders are generally able in the rural parts to recover their debts more promptly than Societies do; and in this they are no doubt assisted by their traditional position in the rural economy, as well as by the fact that they are themselves in many cases agriculturists on a large scale. There is an impression, which is not without a basis of fact, that the *sowcar* is often more lenient in his attitude than a co-operative Society can afford to be. He comes readily enough to his debtor's assistance in a time of necessity, and he only takes his full dues when the debtor is able to meet the demand fully. Societies, on the other hand,—so it is asserted—follow a uniform method at all times, impose and enforce rigid conditions, and make no distinctions between persons and no allowance for there being three classes of debtors, good, bad and doubtful. This only shows where the money-lender has the advantage over the Society, and serves perhaps as an indirect compliment rather than as a valid criticism. Co-operative institutions cannot copy the elastic methods of the professional lender of money; but they may learn a lesson from him in the matter of promptness of relief and of greater consideration for individual circumstances.

The co-operative movement, apart from the habits of thrift and self-help which it should steadily inculcate, can only hope to dislodge the money-lender from his privileged position to the extent that it can meet the raiyat's ordinary needs of life through a proper co-ordination of activities; as, for instance, by combining credit

* *Per* Royal Agricultural Commission.

with supply and marketing, including (where possible) "better living" among the subsidiary objects promoted by rural Societies.

Control of Usury.

In the meantime, accumulated experience points indubitably to the need for effective legislative action, on the one hand, to control the transactions of money-lenders and minimize unscrupulous and dishonest practices on their part, and, on the other, to afford relief to borrowers from some of the harsher incidents of unrestricted usury.

Both the Royal Agricultural Commission and the Indian Central Banking Enquiry Committee recommended legislation on the lines of the English Money-Lenders' Act and the Punjab Regulation of Accounts Act, 1930*; and though the latter was not in favour of compulsory registration, there is now a growing volume of opinion in favour of some sort of restrictive control over the transactions of professional money-lenders.

Such control is not likely to be effective without provision, among other things, for compelling this class of persons to obtain licenses, to maintain regular accounts of their transactions (which should be open to inspection by the authorized officers of Government), to grant receipts in due form for all payments received (maintaining counterfoils), to furnish their debtors every six months with verified statements of their dues, or in the alternative to give pass books to their debtors recording all receipts and payments as well as interest charged, and to abstain from charging excessive interest (that is, above a rate to be prescribed) or compound or penal interest. The Courts should be empowered to disallow interest in the

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*The particular provisions referred to are these:—

The English Money Lenders' Act.

(i) No amount shall be charged by the money-lender for expenses incidental to or relating to the negotiations for, or the granting of, a loan by a money-lender.

(ii) The enhancement of interest for default in repayment shall be illegal.

(iii) No contract for the repayment of money lent by a money-lender shall be enforceable, if there is no note or memorandum in writing of the contract made and signed by the borrower, or if it is proved that the note or memorandum mentioned above was not signed before the money was lent.

The Punjab Regulation of Accounts Act.

This Act imposes certain obligations on the creditor, namely, the regular record and maintenance of the account of each debtor separately in a manner prescribed by the Local Government, and the furnishing to each debtor every six months of a legible statement of account signed by himself or his agent, showing the amount of the loan outstanding and all transactions relating to the loan entered into during the six months to which the statement relates. The accounts have to show interest separately from principal, and the creditor cannot, in the absence of agreement, include the interest in whole or in part in the principal sum. In any suit or proceeding relating to a loan, the Court is empowered to disallow the whole or a portion of the interest found due if the creditor has not regularly recorded and maintained his accounts. The Court is further empowered, in cases where the creditor has not furnished the six-monthly statement to the debtor, to exclude in computing the amount of interest due, every period for which the creditor has omitted to furnish the account or has delayed it and has not been able to show sufficient cause to the satisfaction of the Court for the delay.

case of any wilful omission or neglect on the part of the creditor of the obligations laid upon him; also to reduce the rate of interest where it is excessive, and generally to enforce fair and equitable dealing between the parties.

Legislation as suggested above should also reserve power to Government to impose such special restrictions as may be considered necessary to protect borrowers from the irregular methods and often intolerable exactions of Pathan and Marwari usurers, which are increasingly in evidence both in rural and in urban areas.

Existing legislation.

The only enactments in force in the State directed against usury are the Mysore Agriculturists' Relief Regulation, 1928, and the Usurious Loans Regulation, 1923. The former, which applies only to the smaller agriculturists, is intended to exempt from sale immovable property which is not specifically mortgaged for a debt, and to allow of debts, both secured and unsecured, being repaid, at the discretion of the Court, in instalments extending normally up to eight years. This measure having come in for criticism as adversely affecting "the honest money-lender's rights" and also resulting in a shrinkage of agricultural credit, the Regulation has recently been amended in certain respects as recommended by a Committee appointed in the matter.

In Mysore as in British India little use is being made of the Usurious Loans Regulation, either because the attention of the Courts is not invited to its provisions or because the parties do not seek relief specifically under it. The Regulation is found to be defective in that it places on the debtor the burden of proving that the rate of interest charged is excessive and that the transaction is unfair; the scrutiny of transactions and the disallowing of usurious interest is left to the discretion of the Court instead of being made imperative; and what constitutes excessive interest is not defined. Action has to be taken to remedy these defects, as has already been done elsewhere; and also to make the provisions of the Regulation more widely known among the classes affected.

It would be an advantage if the connected provisions of law for the relief of indebtedness, now contained in several different enactments, could be consolidated.

4. Conciliation of Debts.

It is now generally recognized that effective steps for moderating the burden of debt on just and reasonable

lines cannot be delayed if agriculturists as a class are to be saved, and the process of the transfer of land into the hands of the middleman and the professional money-lender is to be arrested. Legislation with this view has already been undertaken in the Central Provinces, the Punjab, and Madras, and in the States of Bhavnagar and Cochin; and is under active contemplation in Bengal, Travancore, and elsewhere. The Central Provinces Act, II of 1933, has been generally the model for all such legislation; and the Mysore Agriculturists' Relief Committee recommended similar legislation for Mysore, and a Bill for giving effect to its recommendations as accepted by Government is now before the legislature.

Requirements as to legislation.

Speaking broadly, and apart from relatively minor details, any measure of general debt conciliation, if it is to be effective, must, in the first place, provide an impartial tribunal, some at least of whose members have had judicial experience, but all of them inspired by the desire to deal justly and equitably with all parties, while unhampered as a Board by technical rules of law and procedure. Settlements must as a rule be based on mutual agreement or compromise, not on compulsion; the Board may advise and persuade, but not coerce, the parties. In cases where parties are themselves unable to reach a voluntary agreement but are not opposed to a decision on equitable grounds being given by the Board, there can be no objection to the latter exercising functions in the nature of a final arbitration. The fact that a creditor who refuses to consider a fair offer will be faced with the contingency of a deprivation of his costs and a reduction of interest in a subsequent civil suit will act as a healthy incentive to amicable settlement. Also, since the debtor is not always in a position to make a "fair offer," which shall be reasonable in itself and acceptable to all his creditors, and since the Board has the right (under the Bill) to decide "whether the offer made is fair or not," there seems no objection to go a step further and to empower the Board to frame a fair and reasonable scheme for the consideration of parties (without any obligation on their part to accept it), where neither a fair offer nor an agreed settlement is forthcoming. The Board may further be empowered to decide disputes as to the existence or amount of a debt due to a creditor, or as to the extent or value of the assets of the debtor.

NOTE.—Messrs. Chengalaraya Reddy and Mehkri wish to add that the scheme may be tried experimentally on a compulsory basis in selected areas.

Provision for payment of conciliated debt.

But legislation by itself will not give full effect to the policy of conciliation. Provision has also to be made for helping the debtor to pay off the conciliated debt immediately. It was found possible in the Bhavnagar State for the Durbar to advance in cash the entire amount of the debt which, originally aggregating Rs. 86 lakhs, has been reduced to Rs. 20·5 lakhs or less than a fourth of the original claim. In the Cochin State, the Government has arranged to pay off the conciliated debt partly in cash and partly in bonds guaranteed by the State. No organization save Government can command resources adequate for debt conciliation on an extensive scale; but where, as in Mysore, the amount involved is likely to be very large, and the number of cases to be dealt with is quite considerable, direct liquidation by Government agency is impracticable. The help of the Land Mortgage Bank will no doubt be available in all cases where the debtor can offer adequate security and has sufficient surplus income from which to pay the instalments of the debt according to settlement. The debtor of course must be a member of the Bank or of a primary Society, or must become one, before he can be helped.

Agency of Co-operative Societies and Land Mortgage Bank.

The ordinary co-operative credit Societies may be able to help their indebted members to a limited extent, where the total amount involved is, say, below Rs. 250, and the period required for repayment does not exceed ten years. In other cases affecting agriculturists of small means, the liquidation of compounded debts may appropriately be effected through loans granted by the State under a special enactment for the grant of such loans, as in Madras. Apart from such cases, the Co-operative Land Mortgage Bank is, by its functions, resources and methods, best suited for the task in view, provided it is placed in adequate funds for achieving it. With the growing volume of conciliated debt that will have to be paid off by its agency, it will be necessary to empower the Bank to raise the funds needed through the issue of further debentures guaranteed by Government.

Direct conciliation through Societies.

Direct conciliation through the medium of co-operative and land mortgage Societies may occasionally be possible and is sometimes even now effected. But it can only be done on a purely voluntary basis, and on the understanding that in all such cases the Societies are prepared to help the debtor to discharge his liabilities and in the last resort to take them over themselves. A complete list of the debts outstanding should be obtained

and the same dealt with comprehensively ; it is inadvisable to attempt to discharge single debts apart from the rest.

Case of large landed proprietors.

There will still remain a class of large landed proprietors, and among them owners of the bigger Indian coffee estates in the Malnad, whose debts exceed Rs. 10,000, and whose requirements cannot be adequately served by the ordinary co-operative Societies or by the Co-operative Land Mortgage Bank owing to the nature and extent of the financial assistance required. Coffee planting is a big industry in which crores of rupees have been invested. It was once very flourishing, but most of the Indian planters are now more or less heavily indebted. The needs of these large owners can only be met by the formation of a special type of Mortgage Bank. The bulk of the capital, apart from a certain proportion which may be expected to be derived from shares, must be raised by floating debentures to the necessary extent on the security of the estates of the borrowers and with a Government guarantee of the interest as in the case of the Land Mortgage Bank. Without a scheme on some such lines (the details of which will of course have to be carefully worked out and scrutinized), it seems impossible to save the indigenous planting industry from gradual extinction.

5. *Takavi Loans.*

It will be an advantage to utilize the services and local knowledge of co-operative and land mortgage Societies for the distribution of Takavi and Land Improvement loans. In fact, it is advisable that loans to members of such institutions should be generally made through them and not directly. But Societies must in that case be given the same rights of priority and the same privileges as to recovery of dues as are applicable to the case of loans granted direct by Government.

PART III.—ADMINISTRATION.

CHAPTER IX.

Regulative Functions.

1. Audit.

Importance of Audit.

The efficiency of co-operative institutions depends very largely on the arrangements for periodical audit and continuous supervision. Failures are largely due to the absence or ineffectiveness of these important safeguards.

A statutory duty.

Audit is a statutory duty. The Government through the Registrar is under a legal responsibility to ensure a yearly audit of all Societies. It is clear that, if Government were to disclaim responsibility for audit, co-operative credit Societies and Banks would no longer enjoy the same measure of public confidence.

Scope of Audit

Section 17 of the Regulation says that audit "shall *include* an examination of overdue debts, if any, the verification of the cash balance and securities, and a valuation of the assets and liabilities of the Society." These are the primary duties of the Auditor.

Statutory audit requires attention to the following points:—

(1) Verifying the cash balance; where is it kept?

(2) Verifying personal security and mortgage bonds, and other documents for loans advanced.

(3) Whether personal securities are good, and mortgage securities are sufficient.

(4) Verifying the property statement, as a check on the list of the material assets of members.

(5) A detailed report on overdue debts, and the steps taken.

(6) Verifying liabilities.

(7) Verifying the investments by reference to securities, receipts and other vouchers.

(8) Whether irregularities have been rectified.

(9) Balance sheet, and profit and loss statement.

(10) Test supervision report; defects.

Audit, threefold.

The examination and scrutiny of accounts which is the main purpose of audit is ensured in practice by means of a departmental audit, and an annual audit on behalf of the Society, as well as through an internal audit by the management of the Society.

The departmental audit is usually done by the Inspectors of the Department, who are given a printed form to fill. Each Inspector is expected to visit a Society once a quarter; at each time of visit he must check the vouchers, receipts, bonds, etc., and draw up the receipt and expenditure statement for the period; and at the time of the next visit, he must consolidate the figures and go on doing so till the end of the year, when he must give the audit report in the printed form.

The audit on behalf of Societies is entirely optional. It is apparently by no means as searching or thorough as the departmental audit. There are at present no general instructions for Auditors. Each man does his work in his own way. It is necessary to have a proper system of control by the Registrar over Auditors as a class.

There is no regular internal audit in many Societies. The work is allowed to lie over till the end of the year, and then taken up and got through in a hurry.

Functions of Auditor.

Audit, whether conducted through departmental officers or through outside Auditors, should extend somewhat beyond the bare requirements of the Regulation, and embrace an enquiry into all the circumstances which determine a Society's general position. It would, for instance, be the duty of the Auditor to notice any instance in which the Regulation, rules or by-laws have been infringed; to ascertain that loans are made fairly, for proper periods and objects, and on adequate security, and that recoveries at harvest time are satisfactory; to examine repayments in order to check book adjustments or improper adjustments, as well as to note whether fresh loans are granted shortly after the repayment of old ones; to make sure that the interest account is properly maintained, and that unrealised interest is not included under profit; and generally to see that the Society is working on sound lines, and that the committee, the officers, and the ordinary members, understand their duties and responsibilities.

The Auditor must satisfy himself that the books contain a proper record of the transactions entered into. He should make a searching examination of the accounts with the vouchers and the authority for each item of expenditure examined. The Auditor must test the transactions exhaustively; and should his report disclose anything irregular, steps must be taken to have a complete audit made.

The Auditor should not interfere with the method of management of a Society or the control of the officials

and employees. He should confine himself to the records of the business rather than to the actual working. He should examine the rules with a view to satisfying himself that the working of the Society is in accordance therewith.

A form of audit report should be prescribed, both for the departmental Inspector-Auditors and for the non-departmental certified Auditors. The form prescribed should indicate the points on which enquiry should be made and the details to be furnished. It is to be used as a means of testing the real condition of Societies, rather than of collecting elaborate statistics. The Auditor is expected to examine the state of things for himself and not take for granted the particulars furnished to him by the Society. Audit Report

The forms should be printed, and give the main heads under which the report should give information. An extract of the general ledger balances of the loan account at the end of each month may be included in the report. The balance sheet should give the figures under deposits separately for members and non-members, and also show debts separately under the heads "fully secured," "considered good," "bad," or "doubtful".

It will be desirable to issue special summaries of defects noticed in the course of audit.

Audit notes should not be treated as confidential. The Auditor's report should be included in the annual report and placed before the general meeting. Central financing institutions should receive, free of charge, copies of audit reports of all Societies indebted to them. They should also have facilities for making such further enquiry as they may consider necessary to safeguard their own financial interests. Copies of the audit reports should also be made available to depositors, so that they may be able to judge of the position of the Society.

To avoid delay in departmental audit reports, audit should be divided into two parts, preliminary and final; and Societies must be visited for preliminary and final audit at intervals of six months.

In urban Societies with large transactions the reports of Auditors may with advantage be prepared once every half-year and considered at general meetings held every half-year. This will also allow of the annual meetings being held much earlier than at present.

Since the law vests in Government the undivided responsibility for audit, the control of audit as a whole and of the staff therefor must be with the Registrar, so Audit agency.

that the Government may be assured that the Societies started under its auspices are developing on sound lines. But though the audit staff ultimately derives its authority from the Registrar, it need not necessarily be wholly official. He is empowered by section 17 either to conduct the audit himself or to authorize some other person to conduct it. As a matter of fact, the work is being done by different agencies in different Provinces. Usually, the staff consists of two sections, one maintained by Government and the other by co-operative institutions.

In Mysore the majority of the primary Societies (forming 91 per cent of the total number during 1934-35) are audited by the departmental officers. Under orders passed by Government in 1925, Provincial and Central Banks and urban credit Societies with a working capital of Rs. 5,000 and above are required to get their accounts audited by certified Auditors selected by them from a list approved by the Registrar. Societies which have obtained loans from Government or from the Apex Bank are super-audited by the Registrar or the Assistant Registrars.

Audit on behalf of Societies.

A few of the larger rural Societies are also having their accounts audited in detail by competent local Auditors and Accountants. This arrangement is entirely optional and does not require any alteration.

Selection of Certified Auditors.

We understand that there are about 300 Societies in the State having a working capital of five thousand rupees and above which require to be audited by certified Auditors under the orders of Government. An essential qualification of a good Auditor is the possession of sufficient independence to be able to give an unbiassed opinion. In order to ensure this, and also to conform more nearly to the requirement of the law that the Auditor should be a person "authorized" by the Registrar "by general or special order," it is desirable that the Registrar should make a careful selection of persons with the necessary qualifications, experience and character. The appointment of Auditors should be made by the Registrar after consultation with the Societies concerned. The Registrar will fix the remuneration of the Auditors on a sliding scale based on transactions, working capital and net profits of Societies. Each Auditor will be assigned a certain number of Societies. It is desirable that the same person should not audit a Society's accounts for more than two years consecutively.

Cost of Audit.

The Societies audited by certified Auditors as above should be required to make some contribution towards the

cost of such audit. We recommend the following scale based on the amount of working capital :—

1. For Societies with a working capital of or exceeding Rs. 5,000 but not exceeding Rs. 10,000.	Eight annas per hundred rupees of the working capital.
2. For Societies with a working capital exceeding Rs. 10,000 but not exceeding Rs. 20,000.	Eight annas per hundred rupees for the first Rs. 10,000 *plus* 4 annas per hundred rupees of working capital in excess of Rs. 10,000.
3. For Societies with a working capital exceeding Rs. 20,000 but not exceeding Rs. 50,000.	At the above rate up to Rs. 20,000 *plus* 2 annas per hundred rupees of working capital in excess of Rs. 20,000.
4. For Societies with a working capital of over Rs. 50,000.	At the above rate up to Rs. 50,000 *plus* 1 anna per hundred rupees of working capital in excess thereof, subject to a maximum of Rs. 350.

In addition any out-of-pocket expenses incurred in the way of cost of travelling may be given to the Auditor.

Banks and Societies must pay the cost of their own separate audits.

Concurrent Internal Audit.

Over and above the audit made by the departmental staff or by an external Auditor, every Society, large or small, should make arrangements for a continuous daily, or at least weekly, internal audit of the accounts, by the committee or by one or more of its members deputed for the purpose. Where a Society can afford it, a separate audit clerk should be appointed, who will work directly under, and be responsible to, the President for the checking and auditing of the accounts of the daily transactions. This audit should include the verification of cash balances, scrutiny of postings of receipts, examination of vouchers, checking of overdrafts, etc.

The general adoption of such a system of concurrent internal audit will undoubtedly secure increased efficiency in the management of Societies. Errors and irregularities can be more easily traced and checked.

Audit Unions.

A scheme for the formation of Audit Unions, composed of representatives of Societies,—primary and central,—and responsible for providing a staff of well trained and competent Auditors, has been recommended for British India. Such a scheme, if it can be successfully worked out here, will no doubt make for some uniformity in the system of audit, and also provide for the co-ordination of the closely allied functions of audit and supervision now vested in different agencies. But, in the absence

of a strong and efficient co-ordinating Institute at the centre, it cannot be said that the conditions are at present suitable for experimentation on these lines.

2. *Supervision.*

Scope.

Audit, supervision and inspection are functions which are closely allied, and not wholly separable in a simple organization like the primary agricultural credit Society. Broadly speaking, audit lays the emphasis on accounts, supervision on administration, and inspection on finance.

The work of supervision covers many of the points included in audit; but in addition it implies the duty of instructing the members in co-operative principles and the propagation of the movement by the organization of new Societies. It aims not merely at testing the efficiency of a Society, but at helping it to be efficient, and it comprehends the further task of seeing that the defects noted at audit have been remedied. The task of the Supervisor is to see that the work of the Society is not only business-like and up-to-date, but genuinely co-operative; to test the knowledge of the committee and members, to advise them with regard to difficulties and disputes, to explain and remedy mistakes, and to impress upon them the principles which Societies should always have before them.*

The efficiency of a co-operative institution depends as much on continuous supervision as on systematic audit.

Arrangements for Supervision.

It is generally agreed that the present arrangements for supervision are unsatisfactory and defective, especially in the case of rural Societies. But opinion differs as to whether official or non-official supervision should be increased. From one extreme there comes the complaint that the movement is already suffering and has in fact received a "set-back", owing to "excessive official interference and too much unnecessary accounting;" and from the other the conviction is reiterated, curiously enough by many non-officials besides others, that non-official supervision is ineffective and useless and that the safety of the movement lies in a tightening of the official control. The truth no doubt rests, as it often does in such cases, between the two extremes.

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* *Per* Maclagan Committee.

A large measure of statutory control over Societies is at present vested in the Registrar; and this includes, among other things, the power to see that rules and by-laws are duly observed, also a virtually unlimited power of inspection and audit, a certain voice in the investment and disposal of funds, the discretion (subject to an appeal to Government) to order the dissolution and winding up of a Society, and so on. Apart from this, the Registrar is not merely a registering official, but is expected to provide counsel, assistance and guidance to Societies. It cannot be denied that such control and guidance, far from paralysing progress, has distinctly tended in the past to make for the success of the movement.

Case of Central and Urban Societies.

The powers of control now vested in the Registrar are sufficient for all practical purposes, and do not require to be amplified. It is in the scope for the exercise of these powers that some discrimination seems to be required. What is recognized as legitimate and salutary control and supervision in regard to rural Societies generally is sometimes felt as needless and irritating interference in the case of urban Societies.

So far as urban Societies are concerned, barring gross and exceptional cases of mismanagement or financial breakdown, there should be little occasion for interference on the part of departmental officers beyond the discharge of their ordinary functions of audit and inspection. Any advice required of them will be technical rather than administrative. In fact, in the case of the Central institutions and of the well-established urban Banks, interference should be exceptional; and in every case where this is found necessary, a report of the circumstances should invariably be made to Government for information, with a copy of any representation submitted by the institution concerned.

Case of rural Societies.

The case, unfortunately, is otherwise with the rural Societies, many of which are suffering from a lack of honest and capable men to carry on the management. In the case of these Societies, the supervision that is required has to come largely from departmental officers. But even here, the ultimate aim should be to entrust the work of "supervision,"—in its proper sense of administrative assistance, financial advice and general business guidance,—as far as possible to non-official agency where this is available, preferably to persons chosen by the Societies themselves, either individually or in groups or federations. The ideal of a non-official provincial

agency, however desirable, will probably take many years to achieve.

Unions.

It must be confessed that "Federal Unions" (as they have been called) have not worked well in the past, and are being wound up in Mysore because under existing conditions there is little hope of their being made serviceable. The combination of finance and supervision was a mistake. Supervising Unions on somewhat different lines, with functions limited to mutual assistance and co-operation in matters of common concern, have been tried in other parts of India but have not yielded the results expected of them. What is required is improved supervision, not the mere multiplication of agencies.

Local associations.

We consider that, in the circumstances obtaining in Mysore, the scheme of non-official supervision is more likely to succeed if associated with the work of propaganda and advice than if it were based on the idea of superior status and outside control. In order to achieve this object, we recommend that active steps be taken to form local associations representative of the co-operative Societies in every District. If, as suggested later, the Provincial Co-operative Institute is reconstituted and placed on an efficient footing, these local associations may well function as branches of the Institute.

Supervision staff.

The Mysore Co-operative Committee of 1923 suggested that a non-official staff of Supervisors should be maintained to supplement the work of the departmental staff in the guiding, training and supervision of Societies, the cost being met from a percentage contribution on net profits to be levied from Societies. The administration of the fund and the control of the staff was to be left in the hands of a Central organization, which would also have other functions such as propaganda. This suggestion does not appear to have been subsequently pursued. There is at present no supervising staff worth mentioning apart from the departmental one.

3. *Inspection.*

Scope and importance.

Inspection means essentially an enquiry into the financial status and condition of a Society. Supervision, on the other hand, involves constant administrative assistance in routine work, advice on financial matters, and general guidance, both from the business and the co-operative aspects.*

* *Per* Townsend Committee.

It is in the interests of sound management to have the constitution, working and financial condition of Societies thoroughly overhauled at regular intervals of not less than five years. It is particularly desirable that a periodical inspection of each Central financing Bank should be made by the Registrar.

Inspection by Central Financing Institution.

It is within the rights, and should be treated as part of the responsibilities, of a financing Bank to inspect the books of every primary Society indebted to it. In the exercise of this power, which is expressly provided for in the newly added section 36-A, each Central institution may make its own detailed enquiry into a Society's affairs, and take steps to safeguard its financial interests. But beyond tendering advice, it should not interfere with the internal affairs of the Society. The failure to distinguish inspection from supervision is apt to lead to some friction between Societies and Central institutions.

4. *Precautions against Misconduct, etc.*

There have been several instances lately of criminal misappropriation of funds and other serious irregularities on the part of employees of Societies and Banks. In one instance affecting the Provincial Apex Bank, a responsible official was convicted of a series of misappropriations, some of them committed in respect of the deposits of non-members and others.

Having regard to the scope for such irregularities in co-operative institutions, the wonder is that they are not even more frequent. It is well also to remember that serious defalcations are by no means uncommon in other classes of institutions. The need is all the greater for enforcing all practicable measures in the way of precaution and prevention.

Nature of frauds.

It is gathered that frauds in co-operative institutions are usually committed in the following ways, among others :—

(*i*) False entries of debts;

(*ii*) Non-entry of receipts, especially decretal amounts;

(*iii*) Forged bonds;

(*iv*) Issue of receipts from duplicate books;

(*v*) Fictitious loans and vouchers;

(*vi*) Non-disbursement of dividends and interest on deposits;

(*vii*) Non-credit of receipt of interest on securities; and

(*viii*) Misappropriation of cash.

Precautionary methods suggested.

Among the precautionary measures which may be suggested as worthy of adoption, the following deserve prominent attention :—

(i) *Custody of Cash.*—Cash should not, as a rule, be handled except by the Secretary, or, where a paid Assistant Secretary is appointed, by the Assistant Secretary. Where possible, a separate Treasurer should be appointed. A limit should be fixed for the cash kept with the Secretary or Treasurer; the balance should be deposited in the nearest Government Treasury or Post Office. Adequate security should be taken from all persons entrusted with the custody of cash.

(ii) *Verification of Cash Balance.*— There should be frequent and surprise examinations of cash balances by the committee members and by inspecting officers.

A daily balance sheet should be maintained showing the amount and denomination of cash in hand. The cash balance at the end of every week should be reported to the Circle Inspector and, in the case of Central institutions, to the Registrar.

(iii) *Current Transactions.*—Postings of transactions must invariably be made as they take place. The transactions for each month should be closed on the last day, and the preparation of a monthly abstract of accounts should be insisted upon.

All withdrawals on behalf of the Society beyond a specified limit must be signed by both the President and the Secretary.

Proper receipts in the Society's printed forms should be insisted on by the Revenue authorities for all payments of decretal dues.

(iv) *Dealings with members' accounts.*— Acknowledgments of balances of individual assets and liabilities should be obtained periodically from members. Pass-books should be sent for once a year, and the entries checked. No operation connected with current or savings or other account should be allowed without production of the pass-book; and entries therein should be made then and there. Periodical certificates of balance should be sent to depositors for information and verification.

The cheque system should be more generally introduced. Heavy loans should be disbursed by cheque, and repayments of loans should be by means of crossed cheques.

Spare cheque books and receipt books should be kept in trustworthy custody.

(v) *Internal and External Audit.*—In the larger Societies especially, there must be a good system of internal check. If possible, an efficient Auditor or Accountant must be employed to audit the accounts daily. The accounts (including ledgers, balances, outstandings, etc.) must, in any case, be scrutinized at least once a week or fortnight by the committee or by a special sub-committee.

Every Society which can afford to do so should employ permanently a qualified Auditor, who should make a detailed audit every month in the form prescribed. He should, among other things, check the dividend distribution account in detail, and obtain and verify members' pass-books and members' receipts in a number of cases.

Over and above all this, there must be a careful test audit by the departmental staff.

(vi) *Enforcement of responsibility.*—It should not be overlooked that in most cases it is the negligence and carelessness of committees and office-bearers which gives occasion to and facilitates the perpetration of criminal misappropriations and other serious irregularities. They cannot therefore complain if they are held responsible for all defalcations and losses traceable to their negligence or indifference.

(vii) *Interest of General Body.*—Finally, the active interest of members in the working of their institutions is always required, as much as strict supervision and scrutiny over transactions and accounts on the part of the management.

5. *Education and Training.*

Importance of Co-operative Education and Training.

One of the serious handicaps to the successful working of the movement is the general ignorance of members, and the absence of trained men among office-bearers of Societies. Most of the defects in the working of Societies are due to the lack of elementary knowledge on the part of those entrusted with their management.

While it is difficult for the co-operative movement as such to tackle the general problem of rural illiteracy, it is possible by co-ordinated effort to provide for the special task of spreading a knowledge of Co-operation and co-operative principles among the members of Societies, and to train up office-bearers in various ways. Any serious

attempt at the improvement of co-operative Societies in the country must include a proper organization for giving suitable training, as well to the office-bearers of Societies, as to the Inspectors, Auditors and Assistant Registrars of the Co-operative Department.

The importance of co-operative education is such that, according to the Royal Commission on Agriculture, where expenditure by Government on audit would involve the comparative neglect of education, education should be given preference, and the statutory audit should be paid for by Societies.

The Mysore Co-operative Committee of 1923, in recommending the creation of a Central Provincial Organization for the supervision of co-operative Societies, suggested that among its functions should be included arrangements for the training of men engaged in co-operative work. It also recommended that immediate steps should be taken for establishing a Co-operative Training School. The Government considered that no separate school financed solely by Government was necessary, and that it would be sufficient for the Registrar to arrange for a short course of training for Co-operative Inspectors and Honorary Supervisors, besides a series of lectures on co-operative subjects at District and Taluk Conferences.

The present arrangements for instruction and training are inadequate. Occasional lectures by enthusiastic laymen under the auspices of a voluntary association like the Co-operative Institute cannot take the place of connected, organized and graduated teaching, according to an authoritative syllabus, in a recognized educational institution. Refresher courses are only useful for the limited end they have in view.

Need for a Central School.

There seems to be a real necessity for the establishment of a Central Co-operative School at Bangalore. Its control must necessarily vest in Government, but may be exercised through the agency of a small committee nominated by Government and including non-official representatives of the co-operative movement as well as the heads of the Departments of Finance, Agriculture, Industries and Co-operation.

The School should have an elementary course intended for the subordinate clerical staff of Societies, which may include elementary book-keeping and auditing, typewriting and shorthand, and a practical knowledge of the rules and the daily business of co-operative Societies;

and an intermediate course comprising a knowledge of Co-operative Law, Finance and Practice, along with the principles and practice of Accountancy and Auditing. There may also be a higher course intended for those who, after going through the intermediate course, wish to specialize in the theory of Economics, Co-operative and Joint-Stock Banking, the Law of Companies, etc. The length of the elementary course may be fixed at six months, and that of the intermediate course at one year. The special course may extend to an additional period of one year. The classes should be held all the year round; but the teachers need not necessarily be full-time workers in the beginning. The School should, in addition to holding classes, conduct examinations of different grades and grant certificates, or (in the case of the intermediate and special grades) diplomas, to successful candidates.

After the arrangement comes into full effect, only persons who hold such certificates or diplomas should be eligible for employment in the Co-operative Department or on the paid staff of registered Societies, or for particular appointments (to be listed) in other Departments where a knowledge of co-operative methods and finance is considered serviceable. No one who has not passed through the intermediate course and obtained the diploma should be certified as an Auditor of the accounts of Societies.

In this connection, the formation of a general cadre for the paid employees of all co-operative institutions in the State has been suggested to us as calculated to facilitate interchanges of officials, transfers, promotions, and so on; but the proposal has obvious drawbacks and does not seem to be practicable at present.

Officers of or above the grades of Co-operative Inspectors should be required to undergo the intermediate course, and the higher officers should be recommended to take up the special course. Holders of honorary offices in Societies cannot naturally be compelled to undergo these courses; but the advantages of attending some of the more general portions of the curricula may be brought to their attention.

It is unnecessary to have schools at District headquarters at the present stage. But classes for short periods may be held whenever an adequate number of persons offer themselves for training. Similar classes may with advantage be conducted in all Normal Schools.

The cost of the Central Co-operative School and of the occasional classes referred to will have to be met

partly (and in the earlier years for the larger part) by a Government grant, and partly by a contribution from Societies not exceeding five per cent of their net profits, according to resources, which will of course be included within the appropriation permissible by law for charitable purposes.

It has been suggested by some witnesses that Co-operation should be introduced as a subject for study in High Schools. It seems sufficient if it is dealt with as part of Civics in High Schools, and if lessons illustrative of the benefits of Co-operation are included in the text books in Middle Schools. It is certainly desirable that the subject should have a more prominent place in the teaching of Economics in Colleges as well as in the University curriculum. Co-operative Law, Finance, and Practice should be included among the subjects for the Local Service and Pleaders' Examinations, and an examination in that subject made compulsory for certified Auditors.

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CHAPTER X.

Corrective Functions.

1. Consolidation and Rectification.

In view of the unsatisfactory condition of co-operative Societies in general,—a condition partly caused and partly aggravated by the continuous and severe economic depression,—a policy of what is compendiously known as "Consolidation and Rectification" has been adopted since 1929 in almost all parts of India. In essentials, it is simply the application in a more intensive and rigorous form, in order to meet the aggravated conditions, of the various rules and measures of prudent management and watchful supervision which ought to characterize the ordinary working and administration of the co-operative system even in normal times. Its object is threefold: namely, to conserve the resources of institutions, to weed out abuses and elements of weakness, and to improve the management and supervision. Object of Policy.

This policy has been taken up systematically in most Provinces by the Co-operative Departments acting in conjunction with the Provincial Banks. Action in this direction has also been initiated and is in progress in the Mysore State. The Registrar's latest Report indicates that the object in view is being sought to be achieved along four main lines: "first, the systematization of the work of the departmental staff; secondly, closer supervision and control over the work of the Societies; thirdly, the rapid weeding out of all bad Societies and unhealthy elements; and, fourthly, making necessary changes in the laws governing the Societies."

2. Dissolution of Societies.

The Registrar is invested under the law with a fairly wide power of dealing with hopelessly inert or insolvent Societies by the ultimate weapon of dissolution. Cancellation of Registration.

The circumstances which may lead to the cancellation of registration are mentioned in sections 35, 36, and 36-A; namely, as the result of an enquiry made of the Registrar's own motion or on the application of the committee or of the majority of its members; or as the result of an inspection by him made on the application of a creditor of the Society, or of an inspection by the financing Bank, or at the request of three-fourths of the members. Cancellation may also be ordered where the membership falls below the prescribed minimum.

The causes of the failure of Societies, necessitating recourse to the power of dissolution, are very various, and include (in the words of the Maclagan Committee) "a want of due supervision, indiscreet loans, contumacy of borrowers, unpunctuality in repayments, the restrictions of loans to a few individuals, dishonesty or incompetence of Society officials, bad selection of members, the extension of a Society over too large an area, concealment of old debts, faulty constitution, internal dissensions, insufficient funds or membership, the preponderating influence of one member, and general lack of interest by members in the affairs of the Society." When it is clear that there is no hope of eventual solvency or progress, prompt action should be taken to dissolve the Society.

Legal effect.

The effect of cancelling the registration of a Society is that the Society ceases to exist as a corporate body, in other words, is dissolved. The control of the Society and the possession of its assets and books pass to the Liquidator appointed, who takes all the necessary steps for winding up its business. The fact that liquidation, through the realization of assets and discharge of liabilities, is made to follow cancellation instead of preceding it, gives rise to the anomaly that, though the Society as a corporate body has ceased to exist in law and is dissolved into a number of individuals, the Liquidator is nevertheless required and empowered to take various steps on behalf of or in relation to the Society and its assets and liabilities, which necessarily imply its continued existence as a corporate entity.

In Baroda the practice of putting cancellation before the actual process of liquidation has recently been reversed. The difficulty is met in Burma—and likewise in Bombay—by the introduction of an intermediate stage of "winding up;" a Society is first ordered to be wound up, and during this process it remains in existence; if the

Registrar thinks the Society should continue to exist, he may cancel the order for winding up; otherwise he must, after considering the final report of the Liquidator, order the registration to be cancelled, whereupon the Society ceases to exist as a corporate body.* Such a procedure will allow of a Society being revived, where this is at all possible, after its affairs are put in order. A provision on these lines is a desirable addition to the remedies (such as temporary supersession) the judicious application of which will obviate recourse to the last remedy of all, namely compulsory liquidation. It may be mentioned that, when the Mysore Regulation VII of 1918 was amended in 1933, the reference to "cancellation of registration" in section 42 (1) was replaced by a reference to "an order for winding up"; but corresponding changes were omitted to be made in sections 39 and 40. The omission may now be supplied.

Caution in Application.

The power of compulsory liquidation is not preventive, but punitive. While it should be rigorously applied where the conditions are hopeless and cannot otherwise be set right, it is a lethal weapon which should be held in reserve, and its employment postponed as far as possible till milder remedies have been tried and found ineffective. To exercise it in the case of a Central institution involves the punishment and probably the ruin of good Societies as well as bad. It should only be resorted to when all methods of recovering arrears—persuasive or coercive—are exhausted, and most of the outstanding debts are either bad or irrecoverable. Indeed, after liquidation the process of recovery becomes even more formidable than before. Alienation of properties and combinations among villagers are very common. Further, the economic depression and the fall in land values have brought about a scarcity of bidders, and added to the difficulties of liquidation. To resort to hasty and indiscriminate proceedings for liquidation in order to recover sums due is to adopt the policy "of kill rather than of cure."

Notice is not now required to be given before registration is cancelled or winding up is ordered. In England two months' clear notice must be given to the Society specifying the ground of the proposed cancellation. A rule on the same lines may well be prescribed under section 44 of the Regulation.

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* *Vide* section 45 of the Burma Act, and section 47 of the Bombay Act.

Statistics of Liquidation.

The following figures indicate the number of Societies which had their registration cancelled and were liquidated or were pending liquidation during each of the last ten years:—

Year	Number of Societies whose registration has been cancelled	Of these, number of Societies for which Liquidators have been appointed
1925-26 ...	27	4
1926-27 ...	53	1
1927-28	44	1
1928-29 ...	54	...
1929-30 ...	56	2
1930-31 ...	23	5
1931-32 ...	64	5
1932-33 ...	36	7
1933-34 ...	110	22
1934-35 ...	110	16

Some difficulties of Liquidation.

Liquidation work is troublesome, particularly the collection and distribution of the assets. The orders of the Liquidator in regard to these matters have at present to be enforced by application to the Civil Court, with its attendant delays and difficulties. Provision has been made in the local Acts of Bombay and Madras for the summary recovery of members' debts under the Liquidator's orders, through execution by the Revenue Department in the same manner as arrears of land revenue. Similar action is necessary here. In additon to the procedure for recovery through the Civil Court, any sum ordered to be recovered as a contribution to the assets of the Society or as costs of liquidation should be made recoverable, on a requisition made by the Registrar to the Deputy Commissioner in this behalf, in the same manner as an arrear of land revenue.

Effect on Unlimited Liability.

It is sometimes assumed that all cases of liquidation involve the enforcement of the unlimited liability of the members, and result in their ruin and in loss to the creditors. The experience of most Provinces seems to show that this is very far from being the case, and that in many cases the creditors have been fully paid without even the utilization of the Society's reserve fund, which is

devoted to some object of common good.* At the same time, with a view to prevent abuse or misapplication of the discretion given to the Liquidator to determine the contributions to be made by members, it is necessary to lay down by rule that any deficit should, after the full payment of shares, be recoverable by a series of *per capita* levies upon the members to the full extent of their property. This will equalize the individual burden at each levy, and so leave less discretion to the Liquidator.

When registration is cancelled, it becomes necessary for the Registrar to appoint a competent person as Liquidator.

Agency for Liquidation.

Where possible, the services of a suitable non-official gentleman (such as a director of a Central Bank, or a retired Government officer, or a member of the bar, or other person acquainted with court procedure), may be secured. A commission of five per cent on realizations would be sufficient remuneration. If not, one of the Registrar's staff may be utilized.

There is a certain amount of delay in the progress of liquidation work; this must be remedied by the appointment of better qualified and more efficient men as Liquidators, and by the exercise of careful watch and control by the Registrar or his deputy.

Necessary amendments of law as regards Liquidation.

The law as contained in section 42 of the Regulation requires to be amended in certain respects.

(*a*) The Registrar should be empowered to give directions from time to time to the Liquidator after his appointment.

(*b*) Sub-section 2 (*b*) provides only for contributions by "members and past members," and not also (as is necessary and as has been done in the Bombay and Madras Acts) for contributions by "the estates or nominees, heirs or legal representatives of deceased members" as also by "any officers or former officers."

(*c*) The period for which the estate of a deceased member is liable should be extended from one to two years, as in the case of past members.

(*d*) The Liquidator has at present no power to refer any matters in dispute to arbitration. He should be given such power subject to the Registrar's sanction in each case.

* Cp. Bihar and Orissa Administration Report for 1932-33.

(*e*) The necessity for passing both a preliminary and a final decree in the case of mortgage loans should be done away with, and the decree given in the first instance treated as the final "executable decree."

(*f*) The Liquidator should have power to call general meetings from time to time, instead of only at the conclusion of the liquidation.

Section 42-B should be extended to cover cases of apprehended disposal or removal of property after the passing of the order and before it is sought to be put in execution.

3. *Co-operative Litigation.*

Existing arrangements should be continued.

The Legislature has provided in section 43-A a cheap and summary method of disposal of co-operative disputes, with the evident intention that Societies and their members should not be dragged before the ordinary Civil Courts if it could possibly be avoided. No one who realizes the troubles and worries of an expensive and protracted litigation will lightly suggest a surrender of the distinct and solid advantages secured by that method. As a matter of fact, opinion is almost unanimously in favour of the retention of the existing arrangement. It is not without significance that many of the witnesses who frankly and unhesitatingly preferred its continuance to a wholesale transfer of the work to the Civil Courts consisted of lawyers of experience and standing.

Nature of disputes.

Disputes touching the business of Societies are, in the generality of cases, of a more or less simple nature. The parties are usually a registered Society and a member or past member, or a person claiming through a member or past member. The claim (when preferred on behalf of the Society) is invariably founded on documents executed and entries in accounts kept in the regular course of business. Execution and the receipt of consideration are rarely if ever denied by the borrowers. The plea commonly takes the form of an inability to pay or a request for time or for a reduction in the rate of interest or for the waiving of penal interest; such a plea, when reasonable, is sympathetically considered. Disposals in these circumstances naturally take place without serious contest. Save a hundred or a hundred and fifty cases referred to Arbitrators in each division, the bulk of the disputes are decided by officers

of or above the status of Assistant Registrars, who have had nothing personally to do with the investigation of the cases made by the Circle Inspectors. Beyond the fact, quite natural and intelligible, that the committees of Societies may be expected to act with discretion and a due sense of responsibility in launching proceedings against members and to avoid unnecessary and unjust litigation, there is no warrant for insinuating that the decisions of departmental officers unduly favour Societies.

Although the committee of management is not a proper party to determine disputes, there is nothing objectionable in requiring disputes to be in the first instance considered by the committee with a view to terms being arranged.

Reference in special cases.

Section 43-A lays down that every co-operative dispute must be referred to the Registrar, but does not expressly say by whom the reference shall be made.

Cases are not uncommon in which action to recover debts due is purposely delayed or not taken because the defaulter happens to be the Secretary himself or one of the other committee members, or other influential person. To provide for such cases, the Registrar should have power to require the committee to make a reference within a specified time, and, on its failure to do so, to direct the Inspector or some other person nominated by him to make the reference.

Parties to dispute.

The expression " person claiming through a member " in section 43-A no doubt includes the heirs, executors, or administrators and assigns of a member, and also his nominee where nomination is allowed. It is likewise reasonable that a subsequent hypothecatee or other alienee should be deemed to be a person claiming through the alienor, so that the former may be made a party to the dispute and made subject to the decree passed.

Statistics of Litigation.

The statistics of co-operative litigation given below show that while disputes are disposed of by departmental officers with reasonable despatch, the work takes up a very appreciable portion of their time. Excluding the cases reserved for disposal by the Registrar (*i.e.*, cases of and above Rs. 2,500 in value) and those referred for arbitration, the bulk of the work is at present attended to by the Deputy Registrar and the four Assistant Registrars.

Serial No.	Name of Office	Year	Number of disputes				
			Pending at the beginning of the year	Filed during the year	Total	Number disposed of	Balance pending at the end of the year
1	Registrar of Co-operative Societies, Bangalore.	1930-31	68	105	173	40	133
		1931-32	133	1	134	73	61
		1932-33	61	...	61	36	25
		1933-34	25	20	45	26	19
		1934-35	19	38	57	33	24
2	Deputy and Assistant Registrars of Co-operative Societies.	1930-31	319	2,966	3,285	2,137	818
		1931-32	818	2,750	3,568	2,659	878
		1932-33	878	2,835	3,713	2,727	556
		1933-34	556	3,573	4,135	3,002	786
		1934-35	786	4,222	5,008	3,448	1,098
3	Arbitrators ...	1930-31	257	...	257	73	514
		1931-32	514	...	514	118	427
		1932-33	427	...	427	132	725
		1933-34	725	...	725	214	858
		1934-35	858	...	858	333	957
4	Total	1930-31	644	3,071	3,715	2,250	1,465
		1931-32	1,465	2,751	4,216	2,850	1,366
		1932-33	1,366	2,835	4,201	2,895	1,306
		1933-34	1,306	3,599	4,905	3,242	1,663
		1934-35	1,663	4,260	5,923	3,814	2,109

Honorary Assistant Registrars.

In Chapter XI we suggest an addition to the number of departmental officers and a redistribution of their work, calculated, among other things, to expedite the disposal of disputes. This, in particular, would be materially helped if qualified persons preferably with judicial experience were appointed as Honorary Assistant Registrars, at least one for each District and each important headquarter town, where such persons are available. Such an arrangement is in some respects preferable to, and will lead generally to quicker despatch of work than, the appointment of less competent men as Arbitrators. Honorary Assistant Registrars may be given a moderate carriage allowance.

Special Officer not needed.

We have considered the alternative of the appointment of a special whole-time judicial or departmental officer for the sole purpose of dealing with co-operative disputes throughout the Districts, but think this is unnecessary and will not improve matters. It will not tend to economy of time or expense for one thing; and for another, it will take away the distinct advantage now available to parties and their witnesses of having such disputes decided in their own neighbourhood.

NOTE—Mr. Ranga Rao considers, differing from the other members, that for the satisfactory disposal of co-operative disputes two Officers of the Judicial Department may be attached to the Co-operative Department and entrusted solely with the duty of disposing of such disputes.

Arbitration and Arbitrators.

The reference of disputes to arbitration is no doubt a common and convenient arrangement, but it does not generally conduce to despatch of work. In fact there is a general complaint that Arbitrators are dilatory, and that boards of arbitration are particularly slow, so much so that in several instances the Registrar has had to withdraw the cases referred to them. There is some difficulty in getting the services of the right type of men to serve as Arbitrators,—independent and unconnected with the parties, the Society or the Department, possessed of a knowledge of the essential principles of law and evidence, and, if possible, having some practical acquaintance with court procedure. Nevertheless it is very desirable to seek for and maintain a panel of suitable persons for this work in each District.

Arbitrators should be paid, where necessary, a small fee for meeting incidental charges; this, having regard to the very simple nature of most of the disputes to be dealt with by them, and the large number that can be disposed of at a time, need not exceed annas eight or rupee one per case. In exceptional circumstances, a higher fee may be specially allowed (including actual travelling expenses, if any).

Civil Courts.

The Registrar has now the discretion to refer a dispute to a Civil Court. This discretion should be freely used where both parties desire it, or where the case involves complicated issues either of law or of adjustment of accounts on which the decision of a judicial tribunal would be desirable.

4. Limitation in relation to Co-operative disputes.

Applicability of Law of Limitation.

Whether disputes under the Co-operative Societies' Regulation are or are not governed by the articles in the Limitation Regulation applicable to suits is a question on which there has been some divergence of opinion among lawyers as well as laymen. The point is not directly covered by authority and is not altogether free from difficulty. It is possible to urge *a priori* considerations, more or less plausible, in support of either view. Having given our best attention to the question with the aid of competent legal opinion and in the light of judicial rulings and dicta, we have come to the conclusion that,—subject to any special provisions in the Co-operative Societies' Regulation, like sections 23 and 24,—the articles as to suits in general contained in the Limitation Regulation do apply to disputes.

Neither the term "Court" nor the term "suit" has received legislative interpretation. But doubtless the former has to be taken in the well understood sense of an authority empowered by law to hear and determine a cause, and the latter in that of a proceeding in a Court of justice for the redress of an injury or for the enforcement of a right or claim. "Judicial proceeding" has been defined in the General Clauses Regulation as meaning any proceeding in the course of which evidence is, or may be, legally taken.

Now, having regard to the fact that the Registrar, when he proceeds to decide a dispute himself, has almost all the essential characteristics and powers of a Court of Justice, including the power to enforce the attendance of witnesses and compel the production of documents, to take down the evidence of parties and of witnesses on oath, and upon such evidence and any documentary evidence produced by either side to give a binding decision, which may be duly executed, it is difficult to resist the conclusion that the Registrar is a Court, and not the less so because the ordinary procedure of Courts is considerably simplified in his case with a view to minimise delay and expense.

As regards Arbitrators, it is true that they are excluded from the definition of "Court" in the Evidence Act, and that an Arbitrator has been held not to be a Court of law. But there is no doubt, according to Indian as well as English law, that a submission to arbitration does not *per se* exclude the right of either party to raise the defence of limitation. If it be intended to exclude such a defence, an express term to that effect must be included in the agreement for submission to arbitration. Otherwise, the statute of limitation will it has been held) apply to proceedings in arbitration. Arbitrators, it is true, have to decide cases according to justice, equity and good conscience; but it cannot be asserted that this end is necessarily promoted by ignoring the salutary principle of limitation, founded, as that principle is, on sound public policy, in the interests of security, and to suppress fraud, quicken diligence, and prevent oppression.

It is well to remember at the same time that, whereas proceedings before an Arbitrator are ordinarily the result of a voluntary submission by the parties, a reference by the Registrar under section 43-A is made at his own discretion and without reference to the volition of the parties. It is difficult to hold that an Arbitrator to whom a dispute is referred for disposal by the Registrar is absolved, any

more than the Registrar himself, from taking into consideration all just and legal pleas including a plea of limitation.

There is, however, good reason to think, from the enquiries made by us, that there is much misunderstanding of the position, and also some diversity of practice, with regard to the applicability to co-operative disputes of the articles in the Limitation Regulation relating to suits. The Government themselves appear to have at one time condoned, if not recommended, the continuance of the practice of referring to arbitration claims alleged to be time-barred instead of dropping or rejecting them, when the matter was definitely brought up for orders in the year 1926.*

It cannot be denied that committees of management have in many instances been wanting in care and diligence in the matter of the recovery of dues, and have failed to take steps either to get written acknowledgments or fresh documents from debtors, or to refer the disputes in time to the Registrar, with the result that claims involving very large sums in the aggregate have become barred and the interests of Societies seriously prejudiced. But if any special consideration is to be shown to co-operative Societies in the matter of limitation, as we think it is right and expedient so to do, it must be placed, not on this narrow ground, but on the broader view that co-operation demands a certain forbearance and consideration as between a Society and its members, that the business of a Society is not conducted for profit but for mutual benefit, that litigation should not ordinarily be resorted to until other means, including persuasion, pressure on sureties, and so on, have first been tried, (a policy specially enjoined on Societies during the present period of depression), and that in the matter of the recovery of dues from defaulters the same standard of promptitude and diligence cannot be looked for from a fluctuating honorary committee of their fellow members, as is to be expected of a private creditor or a joint-stock Bank. It is recognized on all hands that co-operative credit Societies are bodies working in the best interests of the people, particularly the cultivating classes, and are fairly entitled to every reasonable assistance in the recovery of their just dues from fraudulent defaulters.

* *Vide* letter No. D. 3987, dated 7th December 1926 from the Secretary to Government, Development Department, to the Registrar of Co-operative Societies.

Recommendations.

Taking all the circumstances into careful consideration, we are of opinion that co-operative Societies as such should have a longer period of limitation than that ordinarily available, within which to bring up disputes under the Co-operative Societies' Regulation. It may be mentioned that, in the case of suits against agriculturists for the recovery of money, the period has been increased to six years under the Agriculturists' Relief Regulation, XVIII of 1928, and that, where the suit is founded on a registered instrument, the period is twelve years: *vide* section 24. A general provision doubling the usual period of limitation for suits (other than suits on hypothecation or mortgage) when brought by or on behalf of Societies under the Co-operative Societies' Regulation seems reasonable and desirable. The benefit of the increased period, when enacted, should be given to disputes referred within a specified time after the enactment comes into operation.

The opportunity may also be taken to make it clear that, when a decision of the Registrar or of an Arbitrator has to be referred to the Civil Court after the close of infructuous proceedings in the Revenue Department (as in cases coming under section 187-A of the Mysore Land Revenue Code), limitation should only begin to run after the termination of the revenue proceedings and upon a formal reference by the Registrar to the Civil Court for execution. The issue of sale certificates is often considerably delayed, and hence it is necessary to ensure that the starting point of limitation should be the date of issue of the certificate and not that of the confirmation of sale.

5. *Execution.*

Modes of Execution.

In all litigation the chief difficulty arises, not in obtaining a decision, but in securing the execution of the decision. The Maclagan Committee was of opinion that no special procedure was called for in the case of co-operative Societies, and that the decisions of the Registrar and the awards of Arbitrators should be executed in the same manner as decrees of Civil Courts, and not by special process. The reasons which influenced that Committee (namely, that special privileges in the matter would lead to laxity in the selection of members and carelessness in the grant of loans, and also intensify opposition from the outside money-market) have not prevailed over considerations of practical experience and convenience, as well as

indeed of the real necessity, in the present state of the movement, of laying down a more expeditious and summary procedure for the recovery of the dues of Societies.

Accordingly, in Mysore, Madras, Bombay, the United Provinces, and several other parts of India, the decisions of the Registrar and awards of Arbitrators, as well as the orders of Liquidators, are sent in every case either to a Civil Court for execution in the same manner as a decree passed by itself, or to the Deputy Commissioner for realization in the same manner as an arrear of land revenue. In a few other provinces (such as Bengal, the Central Provinces, Assam and Coorg), they are executed through the Civil Courts; and in Hyderabad and Ajmere-Merwara through the agency of revenue officers as arrears of land revenue.

In Madras the Registrar has since been empowered, without prejudice to any other mode of recovery provided, to recover all sums due under a decision, award or order or under a Civil Court decree, by the attachment and sale of the property of the person against whom it has been passed: *vide* new section 57-A. The addition of a similar provision to the Mysore Co-operative Societies' Regulation will be most useful, and tend to make execution more effective in many cases. For one thing, it will enable the Department to attach crops and distrain movables, a power without the effective use of which the collection of co-operative Societies' dues is often most difficult.

It often happens that the managing committee of a Society takes no action to put the decision or award in execution, or delays action owing to reluctance to proceed against an influential member or for other reason. In such cases the Registrar should take the necessary steps on his own initiative.

Section 43-C (i) does not expressly state that the party seeking execution has a choice in the selection of the mode of execution. That he has may probably be assumed, as the "application" referred to in sub-clause (b) must doubtless proceed from the party interested. The point may however be made clear.

Agencies for Execution: Society's own staff.

Societies are themselves primarily responsible for collecting their dues; and as a matter of fact, they are able in many instances to recover them through their own agency even after the dispute has been referred to the Registrar and a decision or award obtained. Coercive steps in execution should only be taken in the last resort, after methods of persuasion, concession and pressure have failed of effect.

Revenue Department.

Execution proceedings are now generally taken, at least in the first instance, through the Revenue Department. Where the ordinary agency of the Department is not able to cope with the work, special agency in the shape of additional Shekdars or Revenue Inspectors is employed, and a charge of 2½ per cent of the collections recovered to meet the cost.

Statistics of Execution.

The progress of execution work, judging from the figures for the past ten years given below, cannot be said to be satisfactory:—

Year	Number of decisions pending execution at the beginning of the year	Number of decisions sent for execution during the year	Total	Number of decisions executed	Number of decisions pending execution
1925-26	3,901	2,764	6,665	1,846	4,819
1926-27	4,819	1,449	6,268	2,020	4,248
1927-28	4,248	2,017	6,265	1,554	4,711
1928-29	4,711	1,713	6,424	1,976	4,448
1929-30	4,448	2,163	6,611	2,490	4,121
1930-31	4,121	2,177	6,298	1,867	4,431
1931-32	4,431	2,720	7,151	2,668	4,483
1932-33	4,483	2,398	6,881	2,015	4,866
1933-34	4,866	3,153	8,019	2,533	5,486
1934-35	5,486	3,660	9,146	2,538	6,608

Out of a total of 9,146 decisions requiring to be executed during the past official year, only 2,538 were executed (wholly or partially) by all the available agencies put together, leaving the very large balance of 6,608 cases awaiting execution at the end of the year.

Figures of pendency for the last ten years are given below, with the pecuniary value of the decisions to be realized:—

Year	Number of decisions pending execution	Value of decisions
		Rs.
1925–1926 ...	4,819	5,64,821
1926–1927 ...	4,248	5,51,607
1927–1928 ...	4,711	5,95,123
1928–1929 ...	4,448	5,22,442
1929–1930 ...	4,121	5,56,047
1930–1931 ...	4,431	5,37,351
1931–1932 ...	4,483	6,09,642
1932–1933 ...	4,866	6,81,398
1933–1934 ...	5,486	7,19,416
1934–1935 ...	6,608	9,51,711

Causes of unsatisfactory outturn.

As regards the causes of the unsatisfactory outturn, there were at one time complaints by Revenue officers of the frequency of stay orders issued by the Co-operative Department at the instance of defaulters just when recoveries were about to be made. The occasion for this was removed by the issue of definite orders by Government in 1930, laying down that the proper authority to grant time to the defaulter, after a co-operative decision is transferred to the Revenue Department, is the Deputy Commissioner, not the Registrar. Among other factors sometimes mentioned in reports of the Revenue Department as having contributed to the accumulation of arrears were a lack of interest on the part of Societies in tracing defaulters and their properties, and insufficient co-operation from the officials of the Co-operative Department in the enforcing of recoveries. In reviewing the Report of the Revenue Department for 1930-31, the Government considered that "there is need for the officers of both the Revenue and Co-operative Departments to bestow greater attention on the execution of these decrees with a view to secure appreciably better results." On the other hand, the Government reviews of the Reports of the Co-operative Department for successive years have continued to repeat the observation that "Deputy Commissioners are requested to pay more attention (or, "to arrange for prompt attention") to the disposal of pending executions."

Remedies.

In our opinion better results can only be attained by the exercise of adequate control over the work of the agency (ordinary and special) entrusted with execution work, and by close co-operation between that agency and the committees of the Societies which hold the decrees for execution.

Meanwhile the complaint is nearly universal that there is considerable delay and trouble in getting decrees executed through the Revenue Department, and that the position of co-operative institutions is being adversely affected by the inability to realize their outstandings. A few witnesses have suggested that the Co-operative Department may be placed in a position to execute its own decisions in the same way that the Civil Courts are. The enactment of the additional provision we have already recommended (on the lines of section 57-A of the Madras Act) will allow of the Registrar enforcing recoveries himself in suitable cases; but a wholesale transfer of the work to the Co-operative Department does not seem necessary or practicable at the present stage, in view of the large

addition to staff and heavy charges of execution that would be entailed. Nor is the other alternative, favoured by some, of the general transfer of execution work to the Civil Courts, likely to result in greater expedition or in the reduction of cost to parties.

The balance of opinion inclines to the view that execution may ordinarily remain with the Revenue Department, but that the higher Revenue officers should interest themselves much more closely and actively in the progress and speeding up of the work. It can hardly be doubted, for one thing, that if the work of the subordinate staff were supervised more closely by the Taluk Amildars concerned, some material improvement could be looked for. In the case of the Shekdars employed on execution duty, specially good work should attract favourable notice and to count, when there is opportunity, as a qualification for promotion ; and, on the other hand, bad work ought to be suitably noticed.

Special recovery staff.

At the same time, the quantity of execution work of all kinds that has to be done seems to justify the immediate employment of a special staff of Revenue Inspectors solely for such work in some, if not all, of the Districts. One special Inspector may be entertained for one or more Taluks according to the quantity of the work. It may be eventually necessary to have a specialized agency for each District solely concerned with the recovery of Societies' dues and wholly paid out of the fees levied, and to place it under the charge of a special officer of the grade of an Amildar. The time may then be opportune for reconsidering the question whether the entire staff may not be attached once for all to the Co-operative Department.

Special sales officers have been appointed in Madras to expedite the execution of decrees. A similar policy has been adopted in Bombay; and recently the Local Government sanctioned a scheme for the appointment of Special Recovery Officers in order to expedite the recovery of Societies' dues in Districts where arrears had unduly accumulated, the cost being met by the levy of a percentage charge on each Society according to the dues recovered. The Report of the Bombay Co-operative Department for 1933-34 bears emphatic testimony to the efficacy of this measure in securing prompt and satisfactory execution not only in cases of wilful default where coercive measures had to be taken, but in other cases as well by the removal of the impression that members could default with impunity, and by a resulting improvement in tone.

A similar scheme may well be tried in Mysore, the staff being at first on a temporary basis; if it be found to be self-supporting, as well as permanently useful and effective for its main purpose, the question of its further continuance may be considered in the light of such experience.

Transmission of decree.

Passing on to matters of procedure, it may be observed that much avoidable time is now taken up in the transmission of co-operative decrees through the regular channels to the Revenue Inspector. There is no reason why a decision should not be sent direct from the Co-operative Department to the Amildar of the Taluk where it is to be executed.

Contact between Society and Revenue agency.

It is desirable in our opinion that the Secretary of the Society concerned should take the initiative in applying to the Amildar for execution with all necessary particulars as regards the defaulter and his assets. It is important that Societies should have adequate contact with the proceedings in execution, and that they should invariably be consulted before action affecting their interests is taken, such as the grant of time to the debtor or the cancellation of a sale. The special Revenue Inspectors are expected to give due intimation to Societies before taking action. The Secretary of the Society should also keep in touch with the Revenue Inspector during the course of execution proceedings.

Processes for recovery of dues.

The processes for recovery of arrears of land revenue are laid down in section 156 of the Land Revenue Code, clauses (a) to (f).

The movable property of the defaulter (which can alone be "attached," *i.e.*, by distraint) can be handed over to the Society under section 43-C (2) of the Co-operative Societies' Regulation if there are no bidders at an auction sale.

Immovable property cannot be attached for the recovery of Societies' dues as arrears of land revenue, and consequently it cannot be handed over to the Society under the above section for want of bidders. It will therefore be necessary for the Society itself to offer an adequate bid, if the auction sale proves abortive for want of bidders and the Society wants to take possession of the lands. The Society by this means would acquire the right, title and interest of the defaulter in the lands, and it can then find out a suitable purchaser or take steps to lease out the lands.

Difficulty in obtaining possession.

A really serious difficulty in connection with sales of immovable property in execution lies in the fact that the purchaser is unable to obtain possession in any case in which some one resists or obstructs the delivery of possession. Where the obstructor is a third person appearing to have a *bona fide* claim of right, it is intelligible that the purchaser should be referred to a Civil Court for his remedy. But where the resistance or obstruction proceeds, as it does in the generality of cases, from the defaulter himself or from some one claiming under or set up by him, it seems anomalous that the Revenue authorities should be unable to give effect to a sale regularly held by them in the only way in which it can be effectuated, through delivery of possession. The Land Revenue Code was amended in 1928 by the addition of a new section 187-A, enabling the purchaser to make an application to the Civil Court complaining of the resistance or obstruction, whereupon that Court would proceed to investigate the matter as if the property was purchased by the applicant at a sale held by it. This, however, has not improved matters, and does not meet the real difficulty, namely, that the purchaser (often the creditor Society) is driven to apply to the Civil Court for redress even in cases where the Revenue authorities are in a position to satisfy themselves that the person in actual enjoyment of the property is the judgment debtor. The fact that the purchaser has to file a suit in the Civil Court to obtain possession deters people from coming forward and bidding for property put up to sale. The only final and satisfactory solution of the difficulty is to place the purchaser of property at a sale in execution of a co-operative decree on the same level, as to obtaining possession, as a purchaser of an occupancy or alienated holding under a sale for land revenue arrears. It will of course be open to any person claiming in good faith to be in possession of the property on his own account or on account of some person other than the judgment debtor to seek redress from the Civil Courts. An alteration of the law on the above lines is very necessary, and may be effected at an early date.

Purchase of lands by Societies.

In connection with the purchase of immovable property in execution, Societies have to bear in mind that the management of lands purchased must, for obvious reasons, be difficult. Co-operative institutions do not as a rule have sufficient or suitable staff to manage them profitably. It will be difficult for them to lease out all the lands or, if leased, to collect the whole of the rents or share of

produce due to them. And they cannot also afford to have their funds locked up in this way. The purchase of lands should only be made sparingly and as a last resort. Where, owing to combination or other reason, proper bids cannot be had, Societies may have to make their own bids; but they should not be compelled to offer more than what they themselves consider reasonable.

Attachment after decision.

Sub-section (4) of section 43-A empowers the Registrar to direct a conditional attachment of property prior to decision. Such a power may advantageously be extended to cases of apprehended alienations by defaulters in the interval between the passing of the decision and the actual initiation of execution proceedings. Alienations of this kind are said to be very common, and are facilitated by the fact that the Mysore Land Revenue Code does not provide for the attachment of immovable property before sale. The result is that, if for any reason an application for sale is not granted, the defaulter gets the opportunity (of which he is not slow to avail himself) of disposing of the property before fresh steps for sale are taken.

In this connection we think that it is necessary that the Land Revenue Code should be amended so as to provide for the attachment of immovable property sought to be proceeded against for the realization of Societies' dues.

Voluntary payments.

It has been represented that when a judgment-debtor voluntarily deposits the decreed amount subsequent to the initiation of execution proceedings, he should not be required to pay the usual percentage contribution towards costs. Some relief may be appropriately given in cases where execution has not actually been set on foot and no cost has therefore been incurred.

Attachment of salaries.

The execution of co-operative decrees against persons employed in public offices and under Local Bodies is governed by the following rule:

"Where the decision or award involves the payment of money and the person or persons against whom the decision or award is made are employed in the permanent or temporary service of the Government of His Highness the Maharaja of Mysore, or of any local authority within the Mysore State, the Registrar may send the decision or award to the Head of the Office or Department or local authority in which the person or persons are employed for enforcement, and such officer shall execute it as if it were a decree of a Civil Court."

A Government Order of 10th March 1926 issued strict injunctions in the matter, which it will be useful to reproduce :

"It has come to the notice of Government that some of the heads of offices to whom decrees passed by the Registrar of Co-operative Societies and his Assistants are sent for execution against persons employed in their offices, keep the decrees by unexecuted for a long time, and then return them to the Registrar, with some such remark as that the officials have been transferred or retired. This is very unsatisfactory. Government direct that all heads of offices and other officers, to whom such decrees are sent for execution, should enforce the decrees from the commencement of the month following that in which decrees are received in the office. In the event of the transfer of the judgment-debtor to another office, the head of the office should transmit the decree to the head of the new office along with the person's last pay certificate and should also intimate the fact to the officer issuing the decree. Any delay or negligence in this respect will be seriously noticed by Government."

It cannot be said that the position is altogether satisfactory even now. We have received representations that the heads of offices occasionally return a warrant with no other endorsement than that the pay of the official is already under attachment. This is not a proper disposal of the matter. In our opinion where there are more decrees than one requiring execution against the same person, the head of the office concerned must be required to make rateable distribution of the permissible amount among all the decrees.

Apart from cases where decrees have been obtained, heads of offices may well co-operate in making periodical recoveries from the salaries of employees who have agreed in writing to this mode of discharging loans contracted from Societies. In such cases the deductions should be continued—in the absence of proper cause—until intimation of full discharge is received from the Society.

6. *Prosecutions and Suits.*

In order to protect office-bearers of Societies from unnecessary harassment at the hands of defaulters against whom stringent action becomes necessary, it seems necessary to give the Registrar an opportunity to examine all cases of alleged misconduct on the part of members of managing committees, before criminal prosecutions are launched.

Similarly, in cases of civil liability, not falling within the definition of a dispute, it must be made obligatory to

serve a notice on the Registrar at least two months before filing a suit against a Society or its managing committee, so as to give the Registrar sufficient opportunity to look into the matter and save the Society from unnecessary litigation.

CHAPTER XI.

Guidance and Control.

1. Ultimate Goal.

It was declared by the Government of India in a Resolution of 1914 that the Co-operative movement must in its essence be a popular one, that nothing should be done to weaken the feeling among co-operators that it is based upon self-reliance and independence, and that therefore the Government, in the best interests of the movement, must not allow Co-operation to become an official concern managed by State establishments.

The goal which Government has before it is the development of a genuinely co-operative organization, self-contained, self-governing as regards its internal affairs, and independent of money contributed by the general tax-payer. That a certain measure of external supervision and control is considered indispensable in order to ensure the safety of the organization and its steady progress on well-considered lines, does not detract from, but rather should help in the attainment of, the ultimate aim of co-operative control.

But while the ideal is, for the Government, subject to the due discharge of its statutory responsibilities, to permit control to devolve on non-officials, the time for putting it completely into practice has not yet come. On the contrary, the fact that the movement is now passing through a critical stage, and that the condition of too many institutions is far from satisfactory, is a reason, not for abandoning the goal, but for hastening slowly and circumspectly towards it.

The province of Government and the province of co-operative agencies must be clearly envisaged. Thus, to mention only broad divisions, education, external supervision and inspection, and control of audit, fall properly within the former, while the internal working of institutions, and their normal credit and business activities, fall as definitely within the latter. There are a few matters which touch both these spheres, such as propaganda, new developments, provincial finance, and rural uplift; co-ordination and supplementation of resources are here obviously indicated.

Subject to these considerations, the aim for the moment should be as far as possible to popularise the movement as a whole, and to promote a sense of responsibility among the members of Societies. Official control should be slackened wherever possible, consistently with the paramount consideration that, "if the members of primary Societies are ever to succeed in a democratic movement the most important object of which is to teach small people the value of thrift and self-help, Government cannot, at this stage, withdraw from them its guiding and helping hand." The fact, therefore, that official participation is still to some extent necessary ought not to warrant the suggestion that it is intended to officialize the movement.

2. *Part of non-officials in the Movement.*

The Co-operative movement, though fostered and guided by a Department of Government, is essentially non-official in its nature. Its success is to be judged not merely by the number of Societies or the amount of working capital, but also by the extent to which there is voluntary activity on the part of non-officials in the direction of expanding and organizing the movement on true co-operative principles for the benefit of the masses.

Meanwhile, free and generous testimony has been paid to the important part played by non-official workers in the management of Societies, in propaganda, and to a certain extent in the work of supervision. Such unselfish service is indeed indispensable, and it is on its continuance in increasing measure that future progress largely depends.

The Mysore State, in common with every other part of India, owes a great debt to the numerous honorary chairmen, directors and secretaries who are devoting so much time and labour to the Co-operative movement. Their work has in many cases been very onerous; but without it the movement must have been still-born, and honorary workers have every reason to congratulate themselves on the great value and success of their labours.

This is not to say that the number of competent, serviceable and public-spirited workers in the field is at all commensurate with the magnitude of the work to be done. The Mysore Co-operative Committee of 1923 considered that it should be possible to get from the class of retired officers, lawyers, missionaries and merchants a band

of honorary workers, if sufficient inducements were offered to them "in the form of suitable travelling allowances, recognition of special worth by means of certificates, titles, and other marks of appreciation and distinction." Both the Government and the Department no doubt fully realize the importance of enlisting in increasing measure the sympathy and active support of the educated classes for the development of co-operation. The difficulty, however, has been in obtaining an adequate response.

3. Honorary Agents.

Much of the preliminary work of teaching and organizing Societies used to be done in Mysore by Honorary Organizers, who were paid a moderate travelling allowance. The work, however, was not systematically done, nor was it very appreciable in results; and the scheme, after being in operation for about seven years, was ordered to be temporarily suspended as a measure of economy in 1932. It seems desirable to revive the scheme of Honorary Organizers on improved lines as soon as financial conditions will permit, utilizing the services of competent persons in such directions as visiting Societies, making people acquainted with the benefits of co-operation, teaching and supervising after a Society has been registered, squaring up differences among members, acting as Arbitrators, investigating loan applications in special cases, liquidation of Societies, and so on. The experience of other parts of India (such as Bombay and Travancore) shows that, with proper selection and encouragement, Honorary Organizers are capable of rendering much useful and even valuable assistance.

The system of Honorary Supervisors is being tried; but the results have not been appreciable, and the number of places has been gradually reduced from 16 in 1931-32 to 7 in the past official year. Having regard to the type of persons usually available in the outlying Taluks, it cannot be said that the experiment has much chance of success.

There has been some difficulty in obtaining the services of non-officials in connection with liquidation and arbitration, and their work is often attended with unnecessary delay.

It is hoped that for the even more responsible work of assisting in the regular disposal of cases as Honorary Assistant Registrars,—should such a scheme be adopted,—

it will be possible to enlist the services of at least one or two gentlemen in each District and each headquarter City possessed of the necessary qualifications and experience.

4. Provincial Co-operative Institute.

Though there is ample and ever increasing scope for non-official participation in the important spheres of propaganda and supervision, there is still a regrettable lack of qualified persons to take up the work. There is at present no adequate organized effort to enlist and train workers, and to send them out to places where their services can be utilized.

In most Provinces in India there is a centralized organization, of a non-official character, for carrying out in a systematic way such objects of general utility and importance as the following: propagating a knowledge of the principles and advantages of co-operation; spreading the co-operative spirit among the people; organizing special types of Societies; promoting business efficiency among the members and united activity for the common good; helping and advising in the work of local supervision; ascertaining and reflecting the trend of provincial opinion; and, generally, undertaking all such public activities as may tend to further the cause of co-operation.

This organization, designated as "the Provincial Co-operative Institute," avoids interference with the finance of the movement. Its membership is open to Societies of all types, non-credit as well as credit. Usually a limit of working capital is fixed. In the Madras Presidency, Central Banks, District Federations, Supervising Unions, and primary non-agricultural Societies with a working capital of not less than Rs. 20,000, are admitted. Individuals are excluded; but persons of knowledge and distinction in the field of co-operation may be invited to be honorary members, and may take part in the proceedings but may not vote. The objects of the Institute are sought to be achieved in various ways, and mainly by the publication of monthly bulletins and of pamphlets and leaflets, the summoning of an annual Provincial Conference, propagandist tours by paid and honorary lecturers, and the institution of training classes for supervisors and honorary workers. The income of the Institute is derived from subscriptions from the affiliated bodies and from the sale proceeds of the bulletins.

The Provincial Co-operative Institutes in Madras and Bombay seem to be doing useful work, particularly in the

direction of propaganda, organization of new Societies, and rural reconstruction. But the paucity of paid workers and the insufficiency of funds (owing to the withholding of subscriptions by Societies) are said to hamper the work in the latter Presidency.

In Mysore a Co-operative Propagandist Institute was organized in 1924 on the lines of the Madras and Bombay institutions, for carrying on propaganda work among the masses by means of pamphlets, journals, lectures, etc. Its work in this direction has not been appreciable; and its main function has been the convening of an annual Provincial Conference at Mysore during the Dasara, attended by a large gathering of delegates and visitors, at which various topics are discussed and resolutions passed. It receives a subvention of Rs. 500 from Government, and publishes a journal at irregular intervals. It is hoped that the Mysore Co-operative Institute (which has since dropped the word "Propagandist" from its designation) may be reconstituted on a more satisfactory basis, with well-defined objects which will be carried out continuously through the year, and with a sufficiency of funds made up partly by an enhanced Government grant, but mainly by contributions from Societies in the State according to their working capital or net profits or other recognized basis of computation. The management must be vested in a Board representing all the main types of co-operative activities and interests in the State and including a few members (not necessarily officials) nominated by Government and connected with important branches of business or industry. As the Institute so reconstituted grows in strength and usefulness, it will be possible to devolve on it larger functions of propaganda and general supervision, as already indicated in Chapter IX.

5. *Periodical Conferences.*

In addition to the Provincial Co-operative Conference at the Capital, District and Taluk Conferences may also with advantage be held occasionally. There is much practical value in such conferences provided they do not become mere routine, and particularly if officers of the Agricultural and other connected Departments also attend and take part.

Apart from this, it is very desirable that the Registrar should at least once a year arrange for a periodical conference, attended by selected officials of the Depart-

ment and by non-officials interested in the working of co-operative bodies, for the discussion of important matters connected with the movement. Such conferences will, as pointed out by the Townsend Committee, serve the twofold purpose of disseminating correct ideas upon co-operative affairs among officials and non-officials, and also of keeping the Registrar in touch with non-official opinion upon co-operative problems of the moment.

Urban institutions have problems of their own which do not concern the generality of rural Societies; and if they wish to hold special conferences, (either separately or as sections of the Provincial Conference), to consider these, they should be encouraged and helped to do so. A similar remark may be made with regard to House-building, Stores, and other special types of Societies, when they wish to take counsel together.

6. *Official Control.*

Functions of Co-operative Department.

The guidance and control of the Movement is now exercised for the most part through the Co-operative Department, which, by means of frequent audit, supervision, and inspection, is expected to maintain the purity and soundness of these institutions.

Every effort is expected to be made by the Co-operative Department to build up a highly educated and well trained official staff. But the provision of such a staff should not, of course, weaken the position of the honorary worker. Both official and honorary workers should be encouraged to study co-operative developments in other parts of the country.

The prime duty of the official staff at the initial stages is to continue the teaching and instruction of members until they are able to dispense with it. Their aim should be to turn out Societies which shall be a model in all respects. In this part of their functions, they must rely, not on executive powers which are confined practically to calling for books and accounts, but on powers of teaching, explanation and persuasion, in order to produce tangible results.

Powers and Duties of Registrar.

The work of a Registrar in India is highly responsible, as well as serious and exacting, as may be seen from the following quotation from the Maclagan Committee's Report :—

"Under the Act it is the duty of the Registrar to receive and enquire into applications for registration; to register the by-laws of Societies and amendments to them; to audit the accounts

or cause them to be audited; to make a valuation of the assets and liabilities of Societies, and prepare a list of overdue loans; to see that the Act, rules and by-laws are observed; to make special inspections when called upon to do so; to dissolve or cancel Societies, and to carry out their liquidation.

"In order to fulfil his duties he must be continually studying co-operative literature, which is now most extensive; he must make himself acquainted with economic conditions and practices both throughout India and in his own province; he must know the principles and methods of joint stock banking; and must examine the systems of developing thrift and inculcating Co-operation which have been tried in other countries.

"He is also head of a teaching establishment, and must devise effective means for impressing a real knowledge of Co-operation on the bulk of the population. He has further to control a large staff, to draft model by-laws and rules, to collect statistics and write reports, to advise Government on various subjects, and to keep in close touch with the higher finance of the movement as managed by Provincial Banks and Central Banks.

"In addition to this, he must attend conferences, co-operative and agricultural, must keep in constant touch with markets, with honorary organizers and other well-wishers and various Departments of Government, and must undertake a certain amount of writing and reading for the official press and for co-operative journals.

"As Mr. Wolff has put it to us, the Registrars should not be set down as officials, but as guides, philosophers, and friends to the Societies, appointed and paid by the State."

In order that the duty of the State to provide adequate and efficient supervision may be properly discharged, the officer entrusted with this responsibility on behalf of the State must also be clothed with suitable authority. A most important part of the Registrar's duties consists, shortly, in due care before the formation of Societies, and in full and proper supervision after they are formed and in working.

The Registrar should control the supply of outside loans and keep a watch over the large sums deposited by the public. The maximum borrowings of all classes of Societies and the adoption of the ruling rate of interest should be under his general control.

The Registrar must remain responsible for the control of audit until the organization is strong enough to arrange for an independent audit system which will command general confidence.

The Registrar should have power to revise an award or order of an Arbitrator, in order to rectify obvious errors resulting in injustice or hardship.

Superior Controlling Staff: The Registrar.

The duties of Registrar require special knowledge and aptitude. It is essential that an officer selected for the post should first have undergone special training and have

shown by experience his fitness for the work. A man should in these times have gained considerable experience of co-operative work before he attempts to guide and control a movement which has developed into an advanced organization.

The Registrar should be, as he already is, a whole-time officer, and of the status of a Deputy Commissioner.

The Registrar should be allowed to visit other Provinces to study other systems. The Royal Agricultural Commission considered that deputation to Europe to study the Co-operative movement there is desirable both for Registrars and for officers under training to succeed them.

Deputy and Assistant Registrars.

With regard to the superior controlling staff below the Registrar, it is no less necessary that the members should be well versed in co-operative literature relating to other countries, and should, if possible, have gained some personal experience of the subject in Europe.

There should be an officer under training to succeed the Registrar.

The powers of the Deputy and Assistant Registrars under the Regulation have been defined in a Government Notification of 5th October 1934. They include the power, among other things, to register Societies, to approve of by-laws, to audit or cause to be audited the accounts of Societies, to hold enquiries, to inspect the books of Societies, to settle disputes the subject matter of which does not exceed Rs. 2,500 or refer them for disposal to arbitration, or to refer parties to the Civil Court, to withdraw disputes from Arbitrators and to dispose of appeals from the awards of Arbitrators, to send decisions for execution to the Revenue Department, to convene special meetings, to call for information, and to sanction payments of dividends in unlimited liability Societies.

Much of the time of these officers is now taken up with the work of audit and inspection and the settlement of disputes. They are also over-burdened with routine, and so unable to give sufficient individual attention and advice to rural primary Societies.

Having regard to the heavy and growing work of the Registrar's office, it is desirable to depute an Assistant Registrar exclusively to help the Registrar in that work. This will leave the Registrar more free for functions of general administration and development. In view of the need for increased attention to the development of new forms of co-operative activity, it will also be desirable to

have a separate branch of the Department under the Deputy Registrar to deal with the agricultural, industrial and other non-credit sides of Co-operation, which have not been sufficiently developed, as well as the Land Mortgage scheme. The methods of organization and management in these respects are different from those applicable in the case of the ordinary credit Societies, and expert advice will also be occasionally required.

It will not be possible for the remaining officers to look after the District work satisfactorily. On the view that about 300 Societies form an adequate charge for a Divisional Officer, it will be necessary to increase the number of Assistant Registrars by two. Each officer should be able to visit all the Societies in his charge at least once within a period of two years. This slight increase in the number of officers, together with a redistribution of duties as suggested, is expected to make for an appreciable improvement in the quality and outturn of work.

The grades of pay of the Assistant Registrars and the Deputy Registrar seem to be personal to the present incumbents. For the future there may ordinarily be two grades of Assistant Registrars, one on Rs. 150-25/2-250, (the same as that for Amildars), and another on 250-40/2--450 (as for Assistant Commissioners) promotion to which should be by special selection only. The Deputy Registrar will usually be an officer of experience and ability, duly qualified to take the place of the Registrar during temporary or permanent vacancies. As such he may well be given the same grade as a Senior Assistant Commissioner, namely, Rs. 500-50/2-600.

Subordinate Controlling Staff.

Of the men now employed as Inspectors more than one-half are said to be not duly qualified for the work. Men who are markedly inefficient or have no aptitude for co-operative work should be weeded out by retirement or by transfer to other duties. Recruitment should hereafter be confined to graduates, preferably those who have taken up Economics as their subject, and have had training in book-keeping and auditing. Selected candidates must undergo training in Co-operative Law, Finance and Practice. Until it is found possible to establish a Central Training School in Bangalore, the men recruited may avail themselves of the facilities given in the institutions already existing in Madras and elsewhere. Once selection has been made, the staff should be kept at a high level of efficiency through training, regular refresher courses, and suitable and diversified work. Inspection includes audit;

and so every Inspector should be able to do audit work as part of his duties.

Inspectors are now required to visit each Society once every quarter. This is very necessary ; but with the large number of Societies in each circle, sometimes as many as 60 or 70, it will not be possible for them to do so even once in six months. About 35 to 40 Societies is the largest number a single Inspector can efficiently attend to. On this basis, it will be necessary to increase the number of Circle Inspectors from 42 to about 55.

It will be desirable to have, in addition, one Inspector for each Assistant Registrar's charge who will be concerned mainly with liquidation, statutory enquiries, and other special duties entrusted to him.

Inspectors may be in two grades, one on Rs. 40 rising by annual increments of Rs. 5 to Rs. 75; and another rising from Rs. 80 to Rs. 125 by annual increments of Rs. 5. The number of men in each grade should be so fixed as to allow of a fairly free flow of promotion. Competent Inspectors may occasionally be sent out as Amildars; those who have had this added experience are likely to do well later on as Assistant Registrars.

The stamp of men at present employed as Supervisors is unsatisfactory. Selections should be made from men who have passed a qualifying examination. There should be scope for the appointment of exceptional men among Supervisors as Inspectors.

Expenditure of Department.

The annual expenditure on the Co-operative Department (excluding loans by Government for special purposes) was for 1934-35 as shown below :—

Government expenditure	....	1·8 lakhs.
Non-Official expenditure	....	1·96 lakhs.

The proportion of Government expenditure to total working capital has been steadily decreasing; and that of non-official expenditure is as steadily increasing.

The Government expenditure was Re. 0-14-3 per member in Mysore, as compared with Re. 1-3-3 in Madras, and Re. 0-4-6 in Travancore during 1933-34.

7. *Relations with other Departments and Non-official Opinion.*

Co-ordination between Departments.

There are, no doubt, manifest advantages in the co-ordination under one whole-time Development Commissioner of the heads of the Departments of Co-operation,

Agriculture, and Industries, as was recommended by the Maclagan Committee. This has, however, not been found practicable anywhere owing to the variety and magnitude of the tasks to be co-ordinated as well as to other reasons. The present policy of Local Administrations is, without any such formal co-ordination, to require the closest possible co-operation between the three Departments. Such co-operation is absolutely essential if the full benefits of the activities of these Departments are to be available to the people at large. This will be greatly facilitated by the formation of a Committee consisting of the heads of the Departments mentioned and presided over by a Member of Council. Such an arrangement was at one time in existence, but was afterwards given up. Mutual consultation and combined action will be particularly valuable in such matters as the improvement of marketing facilities, the opening out of trade centres, the supply of seeds, implements and manure of good quality and at reasonable prices, the elaboration of a system of advances against crops, the opening of dairies in suitable localities, the development of cottage industries, and so on.

Expert advice.

At the same time, substantial progress in non-credit forms of Co-operation can only be secured if expert advice is liberally given, whether directly by the technical Department concerned, or through the loan of technical officers to the Co-operative Department, according to the particular form of co-operative activity to be fostered and the stage of development attained.

District Officers.

As regards the relation of Government officers engaged in District administration to the co-operative movement, the position has been clearly laid down in the following observations of the Government of Mysore, which accord with the opinions of the Maclagan and Samaldas Committees:

"Government desire that all District Officers should help the movement and should give the Societies in their jurisdiction their active support and sympathy. It is no part of their duty to interfere in the internal administration of Societies. They should recognize that the Societies constitute a new factor in District administration, keep in close touch with Societies, and help them with useful advice and suggestions. The officers should preside at conferences whenever possible, attend general meetings, and help in securing honorary workers. The officers of the Co-operative Department should also keep themselves in close touch with the officers of the Revenue Department."

It is gratifying to note that the attitude of the heads of Districts in the matter has been, as a rule, quite sympathetic and helpful. We consider that the active support and sympathy of local revenue officers will be more largely secured by their being given a place on the local associations or branches of the Provincial Co-operative Institute the formation of which we have recommended.

Non-official opinion.

Reference was made, when speaking of periodical conferences, to the importance of Departmental officers keeping in touch with non-official opinion upon co-operative questions. We wholly endorse the view of the Townsend Committee that no important change of policy should be embarked upon without consultation with responsible non-official opinion. As one means of making such opinion always available when required, we would support a suggestion made from several quarters for the formation of an Advisory Committee, at first wholly nominated, consisting of representatives of different types of co-operative activity, of banking and commercial business, and of law. Such a Committee should be of special help in connection with the framing and alteration of rules, by-laws, and forms of accounts.

Increased representation.

We may, at this point, commend for the favourable condideration of Government a proposal which has received much support, that representation should be given to the co-operative movement on the Legislative Council and increased representation on the Representative Assembly. Many of the members of these bodies are no doubt staunch co-operators, even though not returned from a co-operative constituency as such; but in view of the stage of development reached by the movement and its future possibilities as well as its present needs, the demand for some special representation is not unreasonable.

8. *Participation by Government Servants.*

Membership of all Societies is open to Government servants. The restriction suggested by the Maclagan Committee that they should only be permitted to borrow from Societies intended solely for Government servants does not at present obtain in Mysore; but it may be necessary to reconsider the situation for reasons which have been given elsewhere (*vide* Chapter II). The taking of shares and the making of deposits by officials is unrestricted, both as regards primary Banks and as regards Central institutions. In the circumstances it

would seem that there cannot be much objection on principle to their taking part in the management of these Societies both in their own interests as individual members and in the interests of the Societies as a whole, provided always that their participation does not interfere (as in the generality of cases it ought not to interfere) with the proper performance of their official duties.

As a matter of fact, Government servants were being allowed to sit on the managing committees of all Societies, except that, in the case of the Central institutions, they had to obtain the previous sanction of Government, which was granted in most cases.

The rule on this point was however altered in February 1934 so as to make it incumbent on all Government officers and officials to obtain the previous sanction of Government (through their Departmental heads) before even standing for election or re-election to Committees of Central and urban Societies.* Primary rural Societies and departmental Societies composed mainly of officials of Government are excluded from the operation of the new rule. Strong representations have been made to us from all parts of the State that the new rule has tended to deprive the management of urban Societies of the services of many capable and enthusiastic official workers, that Government officials are generally reluctant to obtain the previous permission which is a condition of standing for election, and that, in view of the present unsatisfactory condition of the movement, the restriction may be removed, and the earlier rule reverted to. The representation is one that has our fullest support. Much of the success and development attained in the past must be attributed to the free and ungrudging service rendered out of office hours by many persons who have placed at the disposal of Societies the trained capacity for ministerial and administrative work acquired in the performance of official duties. The working of Societies cannot but improve if competent officials, conversant with the normal processes of administration, audit, accounts and financial procedure, are enabled to serve on the committees of management, while it is equally certain that the imposition of what is regarded as a ban on their free participation will deprive Societies of a valuable element of efficiency.

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* G. O. No. 4137-88 C.S.,—59-33-5, dated 23rd February 1934.

CONCLUSION.

CHAPTER XII.

Resume of Recommendations.

It will be convenient to bring together in a succinct form the principal recommendations which have been made in the course of the preceding Chapters, those as to which the Committee is not unanimous being marked with an asterisk.

PART I.—Organization.

CHAPTER II.

Primary Credit Societies.

		Pages
Preliminaries to Registration.	The organization of societies should only be undertaken by the Department or by some responsible non-official agency authorized by the Registrar. The formation of a society should always be preceded by due enquiry	25
Instruction to members and office-bearers.	Members should have explained to them the main principles of co-operation and the practical working of co-operative societies. Members as well as office-bearers and the staff should receive adequate instruction as to various essential matters ...	25-26
Area of rural societies.	Membership in rural societies should be confined to the inhabitants of a single village if sufficiently large, or of one village and its hamlets, or of a number of villages within a radius of about three miles in the Maidan or five miles in the Malnad	26
Duplication of societies.	As a rule, there should be only one bank or other specific type of society for the same compact area. But where the area is too large to be adequately served by a single institution, separate societies may be permitted to be formed with different jurisdictions. Where there are more societies than one working in the same limited area, either they should be amalgamated or the members should be suitably re-distributed ...	27
Division of societies.	Provisions as to division of societies, on the lines of section 13 of the Madras Act, may be usefully introduced ...	27
Multiple membership.	No member of a credit society with unlimited liability should be admitted into a second similar society until he has withdrawn from membership of the former; and no person should be allowed to pledge his unlimited liability in more societies than one. With a view to limit the present unrestricted freedom to borrow in credit societies generally, a rule may be made that no person, being a member of a credit society, except	

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a land mortgage bank or a central financing bank or a house-building society, shall be a member of any other credit society without the general or special sanction of the Registrar, and that where a person has become a member of two such credit societies, either or both of the societies shall be bound to remove him from membership upon a written requisition from the Registrar to that effect 28

Removal from membership. It is desirable to have a definite rule providing that, whenever it becomes necessary to take coercive steps against a member for default, he should normally be removed from membership unless he at once makes full payment ... 29

Disqualification of defaulters. A general rule may be made declaring that defaulters are ineligible to vote at meetings, and to serve on committees, with power to the Registrar to exempt rural Societies ... 29

It should be incumbent on the committee to take immediate steps to remove a member who ceases to be qualified under the rules or by-laws 29

Exclusion of political and religious activities. The Registrar should have power to rescind any resolution or action of a society or its committee or any of its officers, which may contravene the principle that the discussion or propagation of controversial opinions of a political or religious character are to be entirely excluded from the activities of the movement 29

Liability. Unlimited liability is best adapted for small village societies which do not require much capital, and in which membership is restricted to a small area. In non-agricultural societies, liability should, as a general principle, be limited 30

In special cases, where members are prepared to take adequate reserve liability on their shares, an agricultural credit society may be permitted to be formed on a limited liability basis 30

Powers and Responsibilities of Committees. It is important that the committee of management should not be placed beyond the control of the general body. It is necessary, on the one hand, to affirm and safeguard the position of the general body as the supreme authority in all matters affecting the administration of the society, and, on the other, to see that adequate powers of executive management are delegated to the committee. The allocation of functions in the by-laws should be quite clear and definite in these respects ... 31

Period of office. The by-laws of societies should provide for the compulsory retirement by rotation of a certain proportion of committee members every year, and their replacement by new members. An exception to this may be allowed in the case of societies where the needful facilities for change do not obtain ... 33

Service on several Committees. No person should ordinarily be eligible to serve simultaneously on the committees of more than one society of the same type without the sanction of the Registrar. A central financing institution and a primary urban bank may be taken to be of different types for the purpose of this rule ... 34

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Qualifications for Membership of Committees.

*It is inexpedient to lay down as a necessary qualification for a seat on the committee the possession of a certain number of the society's shares 34

Remuneration of office-bearers.

In all agricultural and in the smaller non-agricultural societies, the Chairman and the members of the managing committee should serve without remuneration. In other institutions where the work is complicated and heavy and requires much time on the part of one or more members, a moderate honorarium may be paid 35

Bonus to Secretary.

Some reasonable compensation by way of bonus will usually have to be paid to the Secretary. The present limit of 12½ per cent of net profits, subject to a maximum of Rs. 250, is generally recognized to be too low, and may be raised to 15 per cent with a maximum of Rs. 500. Where no clerical assistance is given to the Secretary, an additional 5 per cent may be allowed ... 36

Paid staff.

Every society which can afford the cost should have a full time paid staff. In every credit society with heavy transactions, there should be also a trained and fully qualified Manager ... 36

Limit of membership in Urban Banks.

*Where the membership of an urban bank exceeds a general limit of 1,500 (or, with the special permission of the Registrar, 2,000), further admissions must be stopped, the needs of new applicants being served by the formation of an additional bank, and the sphere of operations of the two institutions defined so as to avoid overlapping 37

Number of banks in urban areas.

There should ordinarily be only one bank for each urban area, with one or more branches in the outlying wards or suburbs. But in the larger towns and cities, it would be preferable to have separate banks with jurisdiction over different parts or extensions so as to avoid needless competition and conflict of interests 38

Defaulters in other societies.

No person should be admitted to membership of any society if he has not fully discharged his obligations to other societies ... 38

Grain Banks.

The utility of Grain Banks—in view of various difficulties connected with their working—is strictly limited ... 39

Women's Societies.

There is no special need for separate credit societies for women as a class 40

Where separate societies may advantageously be organised is in connection with the encouragement of thrift, the carrying on of simple home industries, the purchase and sale of articles and the training and employing of women in subsidiary occupations 40

Communal Societies.

There are various theoretical and practical objections to the formation of purely communal societies. But provided their activities are confined to the promotion of the economic interests of their own members and do not overflow into anti-social channels in relation to other communities, there is no reason to place any particular restrictions on their working ... 41

Societies for Depressed Classes.

Special Adikarnataka Societies should only be continued in respect of specific trades like shoe-making and weaving, or where Adikarnatakas cannot get admission freely to the general

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societies. Adikarnataka societies, as long as they are continued, require special help in the shape of a paid Secretary, and of loans at low rates of interest, and also provision for subsidiary occupations for the members 42

Societies for salary earners. In societies for salary earners, subscriptions to provident funds may well be made compulsory, and the advantages of co-operative insurance secured for members 42

Government servants. The scope for indiscriminate borrowing on the part of Government servants will be curtailed by a rule imposing stringent restrictions on multiple membership. A Government servant ought to be prohibited from borrowing from any outside source, so long as there is a departmental or office society of which he is or can be a member, and which is prepared to give him sufficient and reasonable credit for his current requirements up to the maximum limit of his borrowing capacity ... 43

It is necessary to devise a scheme for the redemption of the existing outside debts of officials, preferably through the agency of departmental societies 43

CHAPTER III.

PRIMARY NON-CREDIT SOCIETIES.

Multiple objects. Assuming that incompatible activities are not combined, that unlimited liability is not risked in transactions for which it is unsuitable, and that efficiency is in no way sacrificed, there is no objection to credit societies undertaking non-credit activities as additional or secondary functions, the transactions and accounts of the two sides of activity being kept distinct ... 45

Crop loans. The system of crop loans should be encouraged and worked under due safeguards 47

Loan and Sale Societies. The organization of separate loan and sale societies, working independently of credit societies, requires active encouragement and support from the Co-operative Department, and sufficient financial assistance in the early stages from the Apex Bank. Where suitable godowns are not available for rent, Government may be moved to advance loans for their construction on an inexpensive scale 47

Joint marketing. For the purpose of extending the marketing facilities in the State, societies may be formed for the marketing of commercial crops and industrial products. Liberal help from Government will be needed in the shape of grants for initial expenses, and advances for the building or hiring of warehouses or godowns, in trade centres. A beginning may be made by way of experiment in selected areas where the conditions are favourable and the necessity is greatest, as in the case of the areca-growing tracts of the Malnad, such as Sagar, Tirthahalli and Koppa ... 47

Central Areca Sale Society. The formation of a central areca sale co-operative society, with godowns at Shimoga and affiliated societies or branches all

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over the areca-growing area, may be taken up for early consideration 47-48

Supply of seeds, manure and implements.

The Agricultural Department may, with advantage, utilize more largely the agency of credit societies for distributing improved seed and implements, and also help in the general supervision and development of special non-credit societies. Societies should not be required by the Department to purchase things outright irrespective of whether this would work at a profit or loss 49

Consolidation of holdings.

Permissive legislation may be undertaken, on the lines of the Central Provinces Act, to provide for consolidation being carried out in villages where a majority of the owners holding a certain minimum area of land have agreed to the preparation of a scheme 50

Cattle breeding.

Societies for cattle-breeding can only be properly organized in the bigger villages, and that too if adequate grazing grounds be made available on favourable terms 51

Dairying.

With a view to the supply of pure milk to the residents of the cities of Bangalore and Mysore, dairy societies of distinct types may be organized, one consisting of the producers of milk in the neighbouring villages, and the other of the consumers. Initial help will be required in the shape of dairy equipment, and charges of management for the first few years, as well as an assurance of purchase of the milk requirements of medical institutions ... 51-52

Cattle Insurance.

Cattle insurance is a somewhat speculative undertaking and requires expert knowledge. There has so far been no genuine demand from the people for such societies in Mysore ... 52

Rural Industries.

The work of organizing the people for village industries, and supplementing their regular pursuits by side occupations, may be done through societies of various kinds which will provide raw material, employ labour, advance wages, provide wholesale depots, and arrange for the sale of the finished products in towns and commercial centres. A systematic enquiry should be made into the economic conditions of any industry proposed to be taken up, and a practicable scheme prepared in each case. ... 53

Formation of Industrial Societies.

Co-operative institutions should be established to finance rural industries on a larger scale than at present. The formation of new societies in different parts of the State where there are suitable openings will have to be undertaken cautiously, with the help and encouragement of Government and under expert departmental advice 54

Financial and marketing facilities.

The Apex Bank with its large surplus funds should find it possible to help primary industrial societies to a larger extent than now. The provision of adequate marketing facilities requires continuous and systematic attention from the Department of Industries and Commerce 54-55

Weavers' Societies.

The decline in the weaving industry can only be arrested by suitable organization, special financial and marketing help, and competent technical and expert guidance. The rehabilitation of weavers' societies requires special measures of help on the part

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of Government. There are various practical difficulties of organization and supervision, which cannot be met except by the formation of a Central Society and provision for expert advice and guidance 56-57

Sericultural Societies.

The work of the sericultural societies is hampered by the inadequacy of funds and the lack of technical guidance and help. What they most need is the services of technical workers for carrying on the technical operations; increased sales are expected to meet a part of the cost; the balance will have to be contributed by Government 57-58

Co-operative Reeling.

A desirable extension of co-operative activities would be the joint marketing of cocoons and, where possible, joint reeling. The possibility of organizing co-operative reeling societies, aided with Government funds and supervised by the Sericultural Department, may be investigated 58

Stores.

In stores societies regard should be had in fixing prices to the current market rates, from which they should not ordinarily vary to any marked extent, and allowance must be made from time to time for fluctuations in prices. Co-operative stores must buy wholesale, and buy more directly from the sources of production than they do now. Cash sales should be the rule for all; but where credit is allowed, it should be restricted to members and to the extent of their paid up share or other assets in the society. The profits derived from stores should, after the prescribed allotment to reserve and after paying a reasonable preferential rate on shares, be disbursed entirely on custom in the shape of rebates to members 60

Central Store.

While there are obvious advantages in having one strong central wholesale organization, which could make purchases at source in large quantities for supply to small societies, there is no insistent demand at present for a Central Society, while the need for the large capital and expert management required will remain as an obstacle in the way of its near realization ... 61

House building Societies.

House building societies may with advantage take direct and active part in constructional work. Societies of the kind should help members with type designs as well as assist in the preparation of plans according to individual tastes and requirements. They should be able to procure building materials cheaply, and where possible they should join with other societies in ordering or manufacturing them. They should also in time take up the work of construction for their members. Where they have adequate funds and proper expert help, and especially where they have themselves undertaken the supply or manufacture of house building materials, they may well build a certain number of model houses at their own cost on well-considered type-plans and either lease them to members or sell them on the instalment system 63

Repayments of house building loans.

The equated system of repayment should be generally adopted. A rebate of half per cent below the rate charged should be granted to members, and by Government to societies,

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for payments made in advance. Repayments should be allowed either monthly or annually 64

Central institution for financing House-building Societies. While a Central house construction society does not seem to be quite practicable at present, it is however necessary to have one Central institution entrusted with the function solely of providing the requisite long-term finance for house building societies 65

Rate of interest. To enable house building societies to make full use of the financial assistance offered by Government, it is necessary to lower the rate of interest to members to 6 per cent and to extend the period of repayment up to 20 or 25 years. The Government may be pleased suitably to alter the terms of their loans to allow of this being done 65

Acquisition of land. The law should be suitably amended so as to permit of the compulsory acquisition, on behalf of co-operative housing societies, of land required for house building purposes. ... 65

Technical assistance. Where the work undertaken by a society is on a large scale, free technical assistance should be given by the Public Works Department 66

Labour Societies. There seems to be scope in the Mysore State for societies for the labour classes on the lines of those started in Madras ... 66

Charitable allotments. Some at least of the available charity funds should be pooled together and systematically used for some common purpose benefiting the movement as a whole, such as propaganda and education 67

CHAPTER IV.

FINANCING INSTITUTIONS.

Future policy as to financing of Primary Societies. There being no present necessity for District Central Banks, the Mysore Provincial Apex Bank should be able to carry on as sole financing agency for the primary societies in the State, with the aid of branches to be established by it in the more important centres (beginning with the Mysore City) as the need arises. The absence of local knowledge and the necessity of having to devolve responsibility on agents are no doubt disadvantages; but they may be minimized by associating local advisory committees with the work of the branches. The local committees may be invested by delegation with powers of supervision, including the power to sanction loans up to a limited extent ... 71

Balancing to be performed by Central Institution. In order that the movement may function efficiently and profitably, it is necessary that the connection to be established between it and the money market should be brought about through the Central financing institution. Balancing being performed by the Central institution and by it alone, primary societies (including urban primary banks) should be forbidden to have direct financial relations with each other ... 72

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Representatives of defaulting Societies not to vote.

There should be a rule definitely disqualifying representatives of defaulting societies from voting at general meetings of the Central institution 72

Loans to be confined to societies.

The Provincial Apex Bank should leave individuals to obtain their requirements from primary urban and other societies, which already exist for this very purpose, and confine itself to the financing of the primary societies 72-73

Loans to non-member depositors.

It is unnecessary and inexpedient to permit the Apex Bank to lend money to non-member depositors on the security of their deposits 73-74

Affiliation and reciprocal facilities.

Affiliation must be placed on its proper basis as a necessary condition of mutual benefit and community of interest ... 75

*All primary societies, rural and urban, should be required to affiliate themselves to the Apex Bank, and to invest their surplus funds and a substantial portion of their unutilized reserves to the extent of one-third with that institution

The latter should, for its part, allow these investments to be used as fluid resource, provide suitable cash credit on the security of the investments, and otherwise grant prompt credit on relatively easy terms to the permissible extent, and should afford to the affiliated societies such facilities generally as can be obtained from joint stock banks 75

Directorate of Apex Bank.

It is necessary to raise the strength of the Directorate of the Apex Bank from thirteen to fifteen. Five places should be reserved exclusively for representatives of rural societies, and five for representatives of urban societies, both credit and non-credit; and two for representatives of individual share-holders. This will leave—besides the President, who will be elected by the general body—two places, both of which should be filled by nomination by Government. One of the Directors so nominated may with advantage be the Comptroller 76

The constitution of the Directorate of Central institutions should be defined in outline in the Regulation itself, leaving details to rules. One such rule should provide explicitly for the automatic retirement every year of a third of the Directors by rotation 76

Management of Provincial Bank.

The management of a Provincial Bank calls for practical training and financial knowledge and experience of a high order. The services of trained bankers on the Directorate should, where possible, be secured by co-optation, if not by election. Early steps should be taken to engage on a suitable salary a duly qualified and capable person as Manager. It is essential also to have a qualified Auditor on the staff 77

Banking facilities.

The Provincial Bank and other co-operative institutions should confine themselves to borrowing and lending for short and intermediate terms, leaving long term finance entirely in the hands of the Land Mortgage Bank. This is apart from the separate recommendation made with regard to the financing of house-building Societies 77-78

So far as primary societies are concerned, they should seek

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loans and cash credits from the Apex Bank. But the Apex Bank may well look to the Bank of Mysore for special help of the kind given by the Imperial Bank and the new Reserve Bank in British India 78

What is chiefly needed is an arrangement with the Mysore Bank for giving adequate accommodation to the Apex Bank, in the shape of a cash credit on the security, and up to 75 per cent of the amount, of the pronotes of rural societies backed by their endorsements. It is desirable, at the same time, that the Apex Bank should have the moral backing of Government in the shape of a promise of a definite advance of 2 lakhs of rupees whenever required 78

PART II.—Finance.

CHAPTER V.

CAPITAL RESOURCES.

Attraction of deposits. Deposits in a primary society should as far as possible be confined to persons with local interests, and deposits from outside the locality should be discouraged 82

Rates of interest. While the actual rates of interest will vary according to local conditions and requirements, it is necessary to prevent undue variations and competition of rates in the same area, and also to guard against the danger of leaving too narrow a margin between lendings and borrowings. For these reasons and in order to safeguard the interests of the movement as a whole, it is desirable that the Registrar should continuously watch the rates of interest proposed to be adopted from time to time ... 83

Provident Fund Bonds. Every endeavour should be made to bring home to members, especially in urban societies, the distinct advantages offered by a scheme of Provident Fund Bonds 84-85

Currents deposits. Current accounts may be allowed in urban banks under suitable safeguards. But the system is unsuited to primary rural Societies 85

Security amounts. Government servants, treasurers, etc., who have to tender security, may be permitted at their option to place the security amount in a co-operative institution 85

Inter-finance. Primary societies should not be permitted to borrow directly from one another. The Provincial Apex Bank should be the sole medium for inter-finance within the movement ... 85

Borrowing power of societies. It is the duty of the Directorate of the Central financing Bank to fix every year the maximum sum it is prepared to lend to a society 86

Some at least of the delay in the investigation of loan applications and issue of loans may be obviated if the investigation of a society's borrowing capacity, instead of being postponed till after a specific loan application is received, is taken up as part of

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a systematic process of the assessment of the financial position of all affiliated societies to be conducted periodically ... 86-87

Authorization of committees. The general body of every primary society should, once a year at its annual meeting, fix the maximum limit up to which its committee is authorized to borrow without its sanction, the committee being personally responsible for loss if the limit fixed is exceeded 87

Concessional rates. Central financing institutions are expected to show all possible consideration to their primary societies in the matter of the rates of interest on loans. They should lend at concessional rates sums required by societies up to the extent of the reserve fund of the latter kept in deposit with them ... 87

Custody of cash and securities. Strict rules should be made regarding the custody of cash and securities 88

Security from cashiers. Cashiers should give security for the full amount of till money. Cash balances should be checked in detail at each audit. 88

CHAPTER VI.

EMPLOYMENT OF CAPITAL.

Preliminary investigation A loan should in no case be given without adequate preliminary investigation. In the case of loans to societies, the central financing bank ought to make its own independent investigation irrespective of the Registrar's recommendation. In the case of loans to individual members, it is most important to scrutinize carefully the purpose of the loan and the repaying capacity of the borrower 90

Individual borrowings to be confined to one society. Where a person is a member of more credit societies than one, he should be required to confine his borrowings to one of them. If a member of an unlimited liability society joins another one and so pledges his liability twice over, he ought to be expelled. There should be a clear rule that, where a person has become a member of two such societies, either or both of the societies shall be bound to remove him from membership upon a requisition from the Registrar 91

Purpose of loans. Loans should not be granted except for productive purposes. But where owing to custom or sentiment some non-productive expenditure has to be accepted as necessary, the loans should be granted sparingly and under close supervision ... 90

Period. Co-operative institutions should be required to confine their business to short term credit, that is, for periods not exceeding five years and, with due circumspection, to credit for intermediate periods between five and ten years. Credit for periods over ten years must be treated as long credit, and altogether eschewed by the ordinary co-operative institutions 91

Assessment of credit. The Central financing Bank should assess the credit of an affiliated society after re-examining and testing the society's own estimate of its borrowing power and the data on which the

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society has fixed the normal credit of its members, and considering the society's needs and its own existing funds. Loans granted by societies to members should be based, not so much upon the value of their property and assets as upon their capacity to repay out of the proceeds of their crops or other incomings in the case of short loans, and out of their savings in the case of other loans 93

Fixing of credits. Except in rural societies with a limited membership, the fixing of credit for each individual member is a matter not for the general meeting, but for the managing committee, subject to the maximum credit limits fixed by the general body. ... 93

Normal credit. The introduction of the normal credit system in primary societies is desirable, particularly as regards rural societies. ... 94

Information as to loans. In the case of societies with unlimited liability, a list showing the loans issued to every member, the names of sureties, and the amount of loan unpaid, should be kept open to inspection 94-95

Cash Credit. In well established societies, the practice of allowing cash credits to individual members may be adopted with advantage. Similarly, cash credits should be freely opened by the Central financing institution in favour of well managed societies, but should be subject to annual renewal 95

Margin of interest. The rates of interest charged by the Central financing Banks on loans to societies must, on the one hand, be materially lower than those charged in the bazaar to persons of the class from whom the members are drawn, and yet must be substantial enough to provide the large margin necessary for maintaining adequate fluid resource, building up a reserve, and meeting working expenses. The rates will, at the same time, vary on a definite system with reference to the character of the borrowing society and the length of the loan. Two and a half or at most 3 per cent may be taken in the average as a safe and reasonable margin. The maximum rates charged by societies to members should not depart widely (that is, by more than one or one and a half per cent) from the current market rates ... 95-96

Security. The primary security for every loan should generally be personal. Ordinary co-operative societies would be well advised to shun mortgage security, to confine themselves to personal securities for all loans, and to protect themselves by limiting the loans issued to amounts and periods for which such security is suitable. In the case, however, of loans for intermediate periods, it may be necessary for societies to take collateral protection in the shape of a pledge or mortgage of tangible property ... 97-98

Taking over lands of defaulters. Societies may be permitted, in the absence of bidders for the lands of defaulters, to take them over for a nominal bid, administering them like trust properties on behalf of the defaulters and returning them to the latter whenever the liability is liquidated 98

Loans on crops. Agricultural credit societies, and loan and sale societies, should grant short term loans on the security of harvested crops

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grown by members, and, under due safeguards, on standing crops also 98

Prior claim to be converted into charge. Section 19 of the Regulation gives a society a prior claim to enforce demands against certain property of its members. This should be converted into a charge so that a society may have a first claim without having to obtain a decree. The priority should be made available against any claim of the Government arising from a subsequent loan under the Land Improvement Loans Regulation 99

Shares and Provident Fund Bonds not to be accepted as security. The member's own share should never be accepted as security for a loan. Similarly shares held by a society in a Central institution should not be accepted by the latter as security for a loan. The security required from societies should ordinarily take the form of pro-notes. It is very undesirable to accept Provident Fund Bonds as security for loans ... 99

Disbursement of loans. Loans should be disbursed with fair promptitude. The introduction of a system of normal credits will help substantially to minimize delay in the issue of loans. Where loan applications are numerous, sub-committees may be appointed to grant loans up to a specified limit, beyond which the applications should come before the full committee of management .. 100

Utilization of loans. The proper utilization of the loan should not be left to the borrower's discretion or the vigilance of his sureties, but should be watched and scrutinized by the managing committee ... 101

Repayments. While the special needs of individual borrowers will determine the periods for which loans are granted, repayments should be on dates convenient to the borrower as well as to the society or bank 102

Penal interest and Rebates. Penal interest, if levied, should not be excessive; in any case it should not exceed the ordinary rate by more than two per cent. It is desirable to have a regular system of rebates for prompt repayments 102

Extensions for proper cause. Renewals and extensions should not be granted too freely and without just cause. The existing conditions of economic depression and diminished earnings warrant some relaxation ... 103

Adjustments of payments. *All payments on account of decreed debts should be carried to principal and not to interest; no credit should be taken for interest until the principal has been repaid ... 103-104

Repayments must be real, and must correspond with a real reduction of the borrower's liabilities, and not be made by a re-arrangement of debts 104

Renewals. Renewals should not be permitted until the interest in full and at least 25 per cent of the principal is paid by the borrower, nor in any case till after the lapse of a prescribed interval, which should not be less than a month or six weeks 104

Credit statements, and Demand and Recovery statements. It is desirable to insist on the maintenance of "Credit Statements," as well as to introduce a system of "Demand and Recovery" statements 104-105

Accounts of Loans. The system of accounts should show clearly whether any repayments have been made, what loans have been extended, and

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which have become overdue. Renewed and overdue loans must be clearly discernible. Loans overdue for more than three years should ordinarily be treated as bad debts 105

Responsibility for negligence.

The members of the committee should be made personally responsible, jointly and severally, for the repayment of loans which by their negligence may have become time-barred ... 106

Precautionary measures.

The application of personal pressure on the borrower's sureties should always be the first of the precautionary measures to be adopted. Apart from this, the only other way of ensuring payment is to put pressure upon the borrower to repay according to the best of his capacity 109

Defaulters.

Persons against whom coercive steps have been taken show themselves to be unfit to continue to be members, and should automatically cease to be such (unless liable only as sureties.) A person who has defaulted in respect of his own loan for three months should be disqualified from the office of a member of the committee 109

Systematic examination of outstandings.

Societies and financing banks should undertake a systematic examination of their financial position with reference to their outstandings. Every loan in each society should be examined with a view to ascertain whether it is adequately secured, and whether action should be taken at once to collect it, or time can be given to enable the borrower to pay it of his own accord. In addition to action taken by societies, the Central institutions should themselves set on foot intensive schemes for an examination of all loans outstanding against members in primary societies 109-110

Overdue interest not to be included in net profits.

There should be a definite rule prohibiting the inclusion of all accrued and unrealized interest for the purpose of reckoning profits for distribution. But in the case of Central Institutions the Registrar may, in special cases, permit an exemption in favour of preference shareholders. Interest earned but not realised should be shown separately in the profit and loss account. All accrued interest so deducted, which is actually recovered during a subsequent year, may, however, be permitted to be added to profits of such year available for distribution. No dividend should be paid otherwise than out of profits actually realized 111-112

Maximum dividends.

The maximum dividend should be restricted to a fair interest on capital 112

Reserve in case of thrift and savings societies.

Thrift and savings societies, which neither borrow from non-members nor lend to members in excess of their assets, should be exempted from maintaining a compulsory reserve ... 113

Proportion of owned capital to liabilities.

The share capital *plus* the accumulated reserve fund should not be less than one-tenth of the total liabilities (including loans and deposits) 114

Employment of Reserves.

Usually, the reserve fund should be invested in one or other of the modes laid down in the Regulation and rules up to a limit prescribed by the Registrar, the excess being permitted to be employed productively in the society's own business ... 114

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In societies of unlimited liability, the bulk if not the whole of the reserve fund may be used in their ordinary business as working capital; so also in societies which have no deposits. But in other societies a moiety of the reserve fund should ordinarily be invested outside 114-115

Investment of Reserve Fund.

In the case of the Apex Bank, one-third of the reserve fund should ordinarily be invested in gilt-edged securities, including redeemable Government securities or Land Mortgage or other debentures guaranted by Government, and the remainder permitted to be employed as working capital. Reserve funds of primary societies should be either invested in gilt-edged securities or guaranteed debentures as aforesaid, or deposited with their central financing institutions 115

The option given to a society by section 32 to invest funds in the shares of any other society should be qualified by a proviso that no such investment shall be made in the shares of any society other than one with limited liability 115

Profit on reserve used as capital.

Where any portion of the reserve fund is permitted to be used as working capital, interest thereon at the same rate as for deposits for one year should be added to the reserve ... 115

Bad Debt Fund.

Co-operative societies and banks should be required to make satisfactory provision for all overdue loans considered to be irrecoverable before any dividend is declared. After the building up of a reserve fund has made some progress, it will be desirable to form a special Bad Debt Fund in addition ... 115-116

Share Transfer Fund.

Limited liability societies will be well advised to create a "Share Transfer Fund" 116

Contributions to charitable purposes.

The limit of contribution fixed in section 34 of the Regulation may be raised to 20 per cent of the net profits, and at least one-third of the aggregate earmarked as a provincial fund for the promotion of co-operative education 117

CHAPTER VII.

FLUID RESOURCES, STATE AID, ACCOUNTS.

Cash Credit as Fluid Resource.

Societies which hold large deposits should arrange to have a cash credit with their central institutions for meeting demands unforseen and unprovided for. Loans from other societies or banks should not be resorted to except when absolutely necessary to meet calls which could not be anticipated or otherwise provided for. A central financing institution must keep a fluid resource to meet contractions of credit entailing withdrawals of deposits at due dates. The fluid resource kept by it must suffice to meet its own requirements and those of primary societies which have entered into arrangements with it 118

Standard of Fluid Resource.

For limited liability societies with deposits under Rs. 20,000 and for unlimited societies as a whole, the standard of fluid resource to be maintained may be left to the Registrar's decision. The

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Apex Bank should maintain as fluid resource a sum sufficient to cover one-third of the possible liabilities for the ensuing year. In primary urban banks with deposits of or over Rs. 20,000 every effort should be made to work up to the standard recommended for the Apex Bank 119

Fluid Resource for Fixed Deposits. As regards fixed deposits, it is sufficient to maintain as fluid resource 30 per cent of the fixed deposits falling due within the next six months, or 50 per cent of those falling due within the next 30 days, whichever is higher 119

For current Accounts. With regard to current accounts, notice of large withdrawals might be required; failing this, the standard of fluid resource may, provided proper care and precautions are taken, be fixed at 40 per cent. The same standard will be required in respect of the undrawn balance of cash credit to societies and members 119

For Savings and Thrift Deposits. Societies should be required to keep 25 per cent of savings and thrift deposits as margin 119

For Cash Credits. The Apex Bank should be required to maintain in the form of fluid resource at least 40 per cent of the amount of cash credits allowed to other societies 120

Form of Fluid Resource As a rule, fluid resources should consist of—cash in hand, the undrawn cash credit with a recognized Bank, and 80 per-cent of the current market value of authorized securities ... 120

Facilities to be obtained. Adequate cash credit and overdraft facilities may be obtained from the Bank of Mysore by the Central financial institution ... 120

The Apex Bank should in its turn afford similar facilities to urban banks receiving large deposits 121

Securities held in respect of the reserve fund cannot be regarded as normally available as fluid resource, and the investments should be kept distinct 121

Periodical Reports. All credit societies should submit quarterly statements to the Registrar, showing in detail that the rules in respect of fluid resources are being observed. The reports of the central institutions should be reviewed by the Registrar and copies of his reviews submitted to Government 121

Surplus Fund. Surplus Funds (*i. e.*, superfluous money) in urban societies should be regularly passed on for deposit to the Provincial Apex Bank 121

Special Banking Business. There is no objection to urban co-operative societies doing all kinds of banking business to meet the requirements of their members; but they should be debarred from entering into forward delivery contracts in any market either on their own account or on account of their members. The granting of cash credits, dealing in cheques, and clearing and remittance business, should be encouraged. The discounting of inland bills may be permitted in the case of urban banks 122

Urban banks may also be permitted to advance money on the security of gold and silver ornaments, on the former up to 75 per cent and on the latter up to 50 per cent of the value ... 122

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Sufficient cash balances should be kept by urban banks with the Apex Bank, while receiving from the latter adequate discount or re-discount facilities 122

Concessions to Co-operative Institutions.

The prior claim which is conferred by section 19 of the Regulation, should be made effective by its being replaced by a "first charge" 123

Concessions similar to those enjoyed by the Land Mortgage Bank under sections 66 and 73 of the Regulation may be granted to co-operative institutions, in the matter of the distraint and sale of the produce of mortgaged property through the Registrar, and the registration of documents on behalf of an institution without insisting on the appearance of a representative of the institution 123

*Co-operative societies may be placed in the same position as land mortgage Banks under section 75 in the matter of the burden of proof as to the binding character of the purpose of debts.

It is desirable to exempt all societies generally from the operation of the Agriculturists' Relief Regulation, instead of providing for the grant of exemption in particular cases ... 123-124

Co-operative societies may also be exempted from payment of income-tax and super-tax on earnings from investments in public securities or land mortgage debentures, to the extent of such investments as are necessary for the purpose of their fluid resources and for the investment of reserve funds as prescribed by the rules 125

The full measure of exemption originally enjoyed by societies in the matter of the court fee payable on suits filed in the Registrar's Court, may be restored as soon as financial conditions will permit. In the meantime, where a decision is passed without contest and on the agreement of parties, half the institution fee may be refunded as is done in Civil Courts ... 126

State Aid.

Financial aid may legitimately continue to be given by the State to encourage new societies and new forms of co-operation as well as extensions of the movement in particular directions ... 126

Provision for Co-operative Education.

The spread of co-operative education and the provision of suitable institutions for teaching and training are as much proper objects for State aid and patronage, as they are for active support from co-operative institutions 127

CHAPTER VIII.

LONG-TERM FINANCE.

Policy as to long-term finance.

The combination of short and long-term finance is inadvisable and likely to lead to disastrous results. Long-term finance should be left entirely to land mortgage and other special institutions. In classifying purposes and periods some elasticity is desirable. The description "short-term" may include advances up to five years, those ranging between five and ten years being

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classed as "intermediate"; loans for periods exceeding ten years will then fall under "long-term." The policy indicated must be given effect to steadily and systematically, so as to correspond with the extension of land mortgage and other long-term facilities ... 132-133

Short-term cultivation loans.

While land mortgage institutions should as a rule confine themselves to long-term finance, leaving the ordinary credit societies to undertake short-term credit, it is not unreasonable that, when a land mortgage bank lends money on the security of land, it should also provide a small margin for working expenses in the shape of a floating advance which will be a first charge on each year's crop 137

Limits of loans.

The minimum limit of Rs. 500 for loans tends to shut out many persons whose needs are more moderate, and may be lowered to Rs. 300 in the interests of the smaller agriculturists, provided the minimum period is also reduced to twenty years ... 138-139

Rate of interest.

The rate of interest charged on loans, namely, eight per cent, is too high under existing conditions, and far beyond the capacity of the ordinary agriculturists. The rate charged should not, as a rule, exceed six per cent 139

Should be lowered to six per cent.

The concession asked for by the Land Mortgage Bank, in the matter of the continuance of the annual grant of Rs. 5,000 for working expenses for two or three years more, may be granted on the understanding that immediate effect is given to the lowering of the rate of interest. Even without such extraneous aid, and under normal conditions, allowing a margin of one and a half per cent for meeting expenses, it ought not to be difficult for the Bank to lend at six per cent the money it is able to get at four and a half per cent or less 139-140

Valuation and investigation.

The tacking on of valuation work to Circle Inspectors is not a satisfactory arrangement, as the Inspectors cannot do the work promptly along with their ordinary duties of a varied character. A paid staff for the investigation of loan applications seems quite necessary in addition to the local committee members. The cost will have to be borne by Government for the next few years, after which the Central Land Mortgage Bank should bear it, the affiliated societies contributing from the realizations under appraising fee 140

Delays in granting loans.

The disposal of loan applications and disbursement of loans sanctioned may be accelerated by the adoption of the various suggestions made in the Report 141

Solution of problem of rural poverty.

The final solution of the problem of rural poverty lies in a material improvement of the economic position of the raiyat population, through the steady pursuit of a policy aimed directly at that end. Such a policy will make provision, among other things, for actively helping the agriculturist to adopt improved methods of cultivation familiarized through demonstration and instruction, and by the advance of any necessary capital; for the introduction of subsidiary occupations which will tend to add to his ordinary income from agriculture; and for the gradual expansion of education among the rural population ... 143

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Control of usury.

There is need for effective legislative action, on the one hand, to control the transactions of money-lenders and minimize unscrupulous and dishonest practices on their part, and, on the other, to afford relief to borrowers from some of the harsher incidents of unrestricted usury. Some sort of restrictive control is necessary over the transactions of professional money-lenders. Such control is not likely to be effective without provision, among other things, for compelling this class of persons to obtain licenses, to maintain regular accounts of their transactions, to grant receipts in due form for all payments received, to furnish their debtors every six months with verified statements of their dues, or in the alternative to give pass books recording all receipts and payments as well as interest charged, and to abstain from charging excessive interest or compound or penal interest. The courts should be empowered to disallow interest in the case of any wilful omission or neglect on the part of the creditor of the obligations laid upon him; also to reduce the rate of interest where it is excessive, and generally to enforce fair and equitable dealing between the parties. Legislation as suggested above should also reserve power to Government to impose such special restrictions as may be considered necessary to protect borrowers from the irregular methods and exactions of Pathan and Marwari usurers 148-149

Usurious Loans Regulation.

The Usurious Loans Regulation is defective, in that it places on the debtor the burden of proving that the rate of interest charged is excessive and that the transaction is unfair; the scrutiny of transactions and the disallowing of usurious interest is left to the discretion of the Court instead of being made imperative; and what constitutes excessive interest is not defined. Action has to be taken to remedy these defects, and also to make the provisions of the Regulation more widely known among the classes affected 149

Consolidation of enactments.

It would be an advantage if the connected provisions of law for the relief of indebtedness, now contained in several different enactments, could be consolidated 149

Machinery for Conciliation of Debts.

Any measure of general debt conciliation, if it is to be effective, must, in the first place, provide an impartial tribunal some at least of whose members have had judicial experience, but all of them inspired by the desire to deal justly and equitably with all parties, while unhampered as a board by technical rules of law and procedure. Settlements must as a rule be based on mutual agreement or compromise, not on compulsion; the Board may advise and persuade, but not coerce, the parties. In cases where parties are themselves unable to reach a voluntary agreement but are not opposed to a decision on equitable grounds being given by the Board, there can be no objection to the latter exercising functions in the nature of a final arbitration. Since the debtor is not always in a position to make a "fair offer," the Board may be empowered to frame a fair and reasonable scheme for the consideration of the parties 150

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Payment of conciliated debt.

Provision has also to be made for helping the debtor to pay off the conciliated debt immediately. No organization save Government can command resources adequate for debt conciliation on an extensive scale; but where the amount involved is likely to be very large, and the number of cases to be dealt with is quite considerable, direct liquidation by Government agency is impracticable. The help of the Land Mortgage Bank may be utilized in all cases where the debtor can offer adequate security and has sufficient surplus income from which to pay the instalments of the debt according to settlement 151

Agency of ordinary credit societies and of Land Mortgage Bank.

The ordinary co-operative credit societies may be able to help their indebted members to a limited extent, where the total amount involved is, say, below Rs. 250, and the period required for repayment does not exceed ten years. In other cases affecting agriculturists of small means, the liquidation of compounded debts may appropriately be effected through loans granted by the State under a special enactment for the grant of such loans. Apart from such cases, the Land Mortgage Bank is, by its functions, resources and method, best suited for the task in view, provided it is empowered to raise the funds needed through the issue of further debentures guaranteed by Government ... 151

Direct conciliation through societies.

Direct conciliation through the medium of co-operative and land mortgage societies may occasionally be possible. But it can only be done on a purely voluntary basis, and on the understanding that in all such cases the societies are prepared to help the debtor to discharge his liabilities and in the last resort to take them over themselves 151

Credit requirements of large proprietors.

The requirements of the class of large landed properitors, among them owners of the bigger Indian coffee estates in the Malnad, whose debts exceed Rs. 10,000, cannot be adequately met by the ordinary co-operative societies or by the co-operative Land Mortgage Bank, owing to the nature and extent of the financial assistance required. The needs of these large owners can only be met by the formation of a special type of Mortgage Bank 152

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It will be an advantage to utilize the services and local knowledge of co-operative and land mortagage societies for the distribution of Takavi and Land Improvement Loans. In fact, it is advisable that loans to members of such institutions should be generally made through them and not directly. But societies must in that case be given the same rights of priority and the same privileges as to recovery of dues as are applicable to the case of loans granted direct by Government ... 152

PART III.—Administration.

CHAPTER IX.

REGULATIVE FUNCTIONS. PAGES

Scope of Audit and functions of Auditor.

Audit, whether conducted through departmental officers or through outside auditors, should extend somewhat beyond the the bare requirements of the Regulation, and embrace an enquiry into all the circumstances which determine a society's general position 154

The auditor must satisfy himself that the books contain a proper record of the transactions entered into. He should make a searching examination of the accounts with the vouchers and the authority for each item of expenditure examined. The auditor must test the transactions exhaustively; and should his report disclose anything irregular, steps must be taken to have a complete audit made 154

Form of Audit Report.

A form of audit report should be prescribed, both for the departmental Inspector-Auditors and for the non-departmental certified auditors. The form prescribed should indicate the points on which enquiry should be made and the details to be furnished 155

Publication of Audit Reports.

Audit notes should not be treated as confidential. The auditor's report should be included in the annual report and placed before the general meeting. Central financing institutions should receive free of charge copies of audit reports of all societies indebted to them. They should also have facilities for making such further enquiry as they may consider necessary to safeguard their own financial interests 155

Half-yearly Audits.

To avoid delay in departmental audit reports, audit should be divided into two parts, preliminary and final; and societies must be visited for preliminary and final audit at intervals of six months 155

In urban societies with large transactions the reports of auditors may with advantage be prepared once every half year and considered at general meetings held every half year. This will also allow of annual meetings being held much earlier than at present 155

Audit Agency.

Since the law vests in Government the undivided responsibility for audit, the control of audit as a whole and of the paid staff therefor must be with the Registrar 155

The accounts of societies having a working capital of Rs. 5,000 and above should be audited through certified auditors authorized by the Registrar after consultation with the society concerned 156

The Registrar should fix the remuneration of the auditors selected on a sliding scale based on the transactions, working

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capital and net profits of each society. Each auditor will be assigned a certain number of societies. It is desirable that the same person should not audit a society's accounts for more than two years consecutively 156

The societies so audited should be required to make contibution towards the cost according to a scale recommended ... 156-157

Audit on behalf of Societies.

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Concurrent Internal Audit.

Over and above the audit made by the departmental staff or by an external auditor, every society, large or small, should make arrangments for a continuous daily, or at least weekly, internal audit of the accounts, by the committee or by one or more of its members deputed for the purpose. Where a society can afford it, a separate audit clerk should be appointed, who will work directly under, and be responsible to, the president for the checking and auditing of the accounts of the daily transactions. 157

Audit Unions.

A scheme for the formation of Audit Unions,—while it may make for uniformity in the system of audit and provide for co-ordination of the closely allied functions of audit and supervision—is not at present practicable in the absence of a strong and efficient co-ordinating Institute at the centre ... 157-158

Supervision.

The present arrangements for supervision are unsatisfactory and defective, especially in the case of rural societies ... 158

The case of Central and Urban institutions.

The powers of control now vested in the Registrar are sufficient for all practical purposes, and do not require to be amplified. It is in the scope for the exercise of these powers that some discrimination seems to be required. So far as urban societies are concerned, barring gross and exceptional cases of mismanagement or financial breakdown, there should be little occasion for interference on the part of departmental officers beyond the discharge of their ordinary functions of audit and inspection. Any advice required of them will be technical rather than administrative. In fact, in the case of the Central institutions and of the well-established urban banks, interference should be exceptional; and in every case where this is found necessary, a report of the circumstances should invariably be made to Government for information with a copy of any representation submitted by the institution concerned ... 159

The case of Rural Societies.

... In the case of rural societies, the supervision that is required has to come largely from departmental officers. But even here, the ultimate aim should be to entrust the work of supervision as far as possible to non-official agency where this is available, preferably to persons chosen by the societies themselves, either individually or in groups or federations 159

Non-official Supervision through local associations.

A scheme of non-official supervision is more likely to succeed if associated with the work of propaganda and advice than if it were based on the idea of superior status and outside

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control. In order to achieve this object, it is recommended that active steps be taken to form local associations representative of the co-operative societies in every District. If the Provincial Co-operative Institute is reconstituted and placed on an efficient footing, these local associations may well function as branches of the Institute 160

Inspection. It is in the interests of sound management to have the constitution, working and financial condition of societies thoroughly overhauled at regular intervals of not less than five years. It is particularly desirable that a periodical inspection of each Central financing bank should be made by the Registrar. 161

Precautions against misconduct, etc. The adoption of various precautionary measures against frauds and irregularities in societies is suggested ... 161-163

Education and Training. Any serious attempt at the improvement of co-operative societies must include a proper organization for giving suitable training, as well to the office-bearers of societies, as to the Inspectors, Auditors and Assistant Registrars of the Co-operative Department. The present arrangements for instruction and training are inadequate 164

Need for a Central School. There is a real necessity for the establishment of a Central Co-operative School at Bangalore. Its control must necessarily vest in Government, but may be exercised through the agency of a small Committee nominated by Government and including non-official representatives of the Co-operative movement as well as the heads of the Departments of Finance, Agriculture, Industries and Co-operation. Detailed suggestions are made regarding courses, subjects of study, examinations, appointment of qualified persons, etc. Occasional classes for short periods may be held in District headquarters and in Normal Schools ... 164-165

Cost. The cost of the Central Co-operative School and of the occasional classes will have to be met partly (and in the earlier years for the larger part) by a Government grant, and partly by a contribution from societies not exceeding five per cent of their net profits, according to resources 165-166

Teaching of Co-operation. Co-operation may be dealt with as part of Civics in High Schools, and lessons illustrative of its benefits included in the text books in Middle Schools. The subject should have a more prominent place in the teaching of Economics in Colleges as well as in the University curriculum. Co-operative Law, Finance and Practice should be included among the subjects for Local Service and Pleaders' Examinations, and an examination in that subject made compulsory for certified auditors 166

CHAPTER X.

CORRECTIVE FUNCTIONS.

Winding up prior to cancellation of registration. The introduction of an intermediate stage of "winding up" (as in Burma and Bombay), prior to actual cancellation of registration, will remove certain anomalies, allow of a society

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being revived after its affairs are put in order, and obviate resort to compulsory liquidation 168-169

Compulsory liquidation.

The power of compulsory liquidation is not preventive, but punitive, and its employment should be postponed as far as possible till milder remedies have been tried and found ineffective. It should only be resorted to when all methods of recovering arrears—persuasive or coercive—are exhausted, and most of the outstanding debts are either bad or irrecoverable ... 169

Notice prior to cancellation or winding up.

The Regulation does not require notice to be given before registration is cancelled or winding up is ordered. A rule may be prescribed requiring two months' clear notice to be given to the society specifying the ground of the proposed order ... 169

Enforcement of orders of liquidator.

The orders of the liquidator in regard to the collection and distribution of assets have at present to be enforced by application to the Civil Court, with its attendant delays and difficulties. Provision may be made (as in Bombay and Madras) for the summary recovery of members' debts under the liquidator's orders through execution by the Revenue Department in the same manner as arrears of land revenue ... 170

Contributions in case of unlimited liability.

With a view to prevent abuse or misapplication of the discretion given to the liquidator to determine the contributions to be made by members, it is necessary to lay down by rule that any deficit should, after the full payment of shares, be recoverable by a series of *per capita* levies upon the members to the full extent of their property. This will equalize the individual burden at each levy, and so leave less discretion to the liquidator ... 170-171

Agency for liquidation.

The services of suitable non-official gentlemen may be secured on payment of a commission of 5 per cent on realizations; otherwise, one of the Registrar's staff may be utilized ... 171

Amendment of provisions regarding liquidation.

The law as contained in section 42 of the Regulation requires to be amended in certain respects. ... 171

Section 42 B should be extended to cover cases of apprehended disposal or removal of property after passing of the order and before it is sought to be put in execution ... 172

Reference of dispute on default of action by Committee.

To provide for cases in which action to recover debts due is purposely delayed or not taken because the defaulter happens to be the Secretary himself or one of the other committee members or other influential person, the Registrar should have power to require the committee to make a reference within a specified time, and, on its failure to do so, to direct the Inspector or some other person nominated by him to make the reference ... 173

Honorary Assistant Registrars.

The disposal of disputes would be materially helped if qualified persons were appointed as Honorary Assistant Registrars, at least one for each District and each important headquarter town, where such persons are available. Honorary Assistant Registrars may be given a moderate carriage allowance. 174

Fee for Arbitrators.

A panel of Arbitrators should be maintained for each District. Arbitrators should be paid, where necessary, a small fee for meeting incidental expenses, which need not exceed annas eight or rupee one per case. In exceptional circumstances, a higher

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fee may be specially allowed (including actual travelling expenses, if any) 175

Reference to Civil Courts.

The Registrar's discretion to refer a dispute to a Civil Court should be freely used where both parties desire it, or where the case involves complicated issues either of law or of adjustment of accounts on which the decision of a judicial tribunal would be desirable 175

Limitation in relation to Co-operative disputes.

On the difficult question whether disputes under the Co-operative Societies Regulation are or are not governed by the articles in the Limitation Regulation applicable to suits, the Committee's conclusion is that,—subject to any special provisions in the Co-operative Societies Regulation, like sections 23 and 24,—the articles as to suits in general contained in the Limitation Regulation do apply to disputes 175

Period to be extended.

In view of the special circumstances applicable, co-operative societies as such should have a longer period of limitation than that ordinarily available, within which to bring up disputes under the Co-operative Societies Regulation. A general provision doubling the usual period of limitation for suits (other than suits on hypothecation or mortgage) when brought by or on behalf of societies under the Co-operative Societies' Regulation seems reasonable and desirable. The benefit of the increased period, when enacted, should be given to disputes referred within a specified time after the enactment comes into operation ... 178

The opportunity may also be taken to make it clear that, when a decision of the Registrar or of an arbitrator has to be referred to the Civil Court after the close of infructuous proceedings in the Revenue Department (as in cases coming under Section 187A of the Mysore Land Revenue Code), limitation should only begin to run after the termination of the Revenue proceedings and upon a formal reference by the Registrar to the Civil Court for execution. The starting point should be the date of issue of the sale certificate, and not that of the confirmation of sale 178

Power to Registrar to recover dues.

The addition to the Mysore Co-operative Societies Regulation of a provision on the lines of section 57A of the Madras Act, empowering the Registrar, without prejudice to any other mode of recovery provided, to recover all sums due under a decision, award or order or under a civil court decree, by the attachment and sale of the property of the person against whom it has been passed, will be most useful, and tend to make execution more effective in many cases 179

Power to initiate execution in default of action by Committee.

In cases where the managing committee of a society takes no action to put the decision or award in execution, or delays action owing to reluctance to proceed against an influential member or for other reason, the Registrar should take the necessary steps on his own initiative 179

Choice of mode of execution.

Section 43C (i) does not expressly state that the party seeking execution has a choice in the selection of the mode of execution. The point may be made clear 179

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Execution through Revenue Department

Better results in the matter of the execution of co-operative decisions through the Revenue Department can only be attained by the exercise of adequate control over the work of the agency (ordinary and special) entrusted with execution work, and by close co-operation between that agency and the committees of the societies which hold the decrees for execution ... 181

Alternatives cousidered.

A wholesale transfer of the work to the Co-operative Department is not necessary or practicable at the present stage, in view of the large addition to staff and heavy charges of execution that would be entailed. The general transfer of execution work to the Civil Courts is not likely to result in greater expedition or in the reduction of cost to parties. Execution may ordinarily remain with the Revenue Department, but the higher Revenue Officers should interest themselves much more closely and actively in the progress and speeding up of the work 181-182

Special Recovery Staff.

At the same time, the quantity of execution work of all kinds that has to be done seems to justify the immediate employment of a special staff of Revenue Inspectors solely for such work in some, if not all, of the districts. One Special Inspector may be entertained for one or more taluks according to the quantity of the work. It may be eventually necessary to have a specialized agency for each district solely concerned with the recovery of societies' dues and wholly paid out of the fees levied, and to place it under the charge of a Special Officer of the grade of an Amildar 182

A scheme for the appointment of Special Recovery Officers, as in Madras and Bombay, may be tried in Mysore, the staff being at first on a temporary basis; if it be found to be self-supporting, as well as permanently useful and effective for its main purpose, the question of its further continuance may be considered in the light of such experience 182-183

Transmission of Decree.

Much avoidable time is now taken up in the transmission of co-operative decrees through the regular channels to the Revenue Inspector. There is no reason why a decision should not be sent direct from the Co-operative Department to the Amildar of the Taluk where it is to be executed ... 183

Contact between Society and Revenue Agency.

The Secretary of the society concerned should take the initiative in applying to the Amildar for execution, with all necessary particulars as regards the defaulter and his assets ... 183

It is important that societies should have adequate contact with the proceedings in execution, and that they should invariably be consulted before action affecting their interests is taken, such as the grant of time to the debtor or the cancellation of a sale. The special Revenue Inspectors are expected to give due intimation to societies before taking action. The Secretary of the society should also keep in touch with the Revenue Inspector during the course of execution proceedings 183

Possession of property sold in execution.

The purchaser of property at a revenue sale in execution of a co-operative decree should be placed on the same level as to

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obtaining possession, as a purchaser of an occupancy or alienated holding under a sale for land revenue arrears. It will be open to any person claiming in good faith to be in possession of the property on his own account or on account of some person other than the judgment-debtor to seek redress from the Civil Courts. An alteration of the law on the above lines is very necessary, and may be effected at an early date 184

Purchase by Societies. The purchase of lands by co-operative societies in execution should only be made sparingly and as a last resort. Where, owing to combination or other reason, proper bids cannot be had, societies may have to make their own bids; but they should not be compelled to offer more than what they themselves consider reasonable 185

Attachments after decision. Sub-section (4) of section 43-A empowers the Registrar to direct a conditional attachment of property prior to decision. Such a power may advantageously be extended to cases of apprehended alienations by defaulters in the interval between the passing of the decision and the actual initiation of execution proceedings 185

The Land Revenue Code should be amended so as to provide for the attachment of immovable property sought to be proceeded against for the realization of societies' dues 185

Voluntary payments. When a judgment-debtor voluntarily deposits the decreed amount subsequent to the initiation of execution proceedings, he need not be required to pay the usual percentage contribution towards costs, in cases where execution has not actually been set on foot and no cost has therefore been incurred ... 185

Attachment of salaries. Where there are more decrees than one requiring execution against the same official, the head of the office concerned must be required to make rateable distribution of the permissible amount among all the decrees 186

Apart from cases where decrees have been obtained, heads of offices may well co-operate in making periodical recoveries from the salaries of employees who have agreed in writing to this mode of discharging loans contracted from societies ... 186

Prosecutions and Suits. In order to protect office-bearers of societies from unnecessary harassment, the Registrar should be given an opportunity to examine all cases of alleged misconduct on the part of members of managing committees, before criminal prosecutions are launched 186

Similarly. in cases of civil liability, not falling within the definition of a dispute, it must be made obligatory to serve a notice on the Registrar at least two months before filing a suit against a society or its managing committee, so as to give the Registrar sufficient opportunity to look into the matter and save the society from unnecessary litigation 186-187

CHAPTER XI.

GUIDANCE AND CONTROL.

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Ultimate goal.	Subject to the considerations that the ultimate goal is the development of a genuinely co-operative self-contained organization, and that a certain measure of external supervision and control is indispensable for the safety and steady progress of the movement, the aim should be as far as possible to popularise the movement as a whole, and to promote a sense of responsibility among the members of societies. Official control should be slackened wherever possible	189
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Provincial Co-operative Institute.	The Mysore Co-operative Institute may be reconstituted on a more satisfactory basis, with well defined objects which will be carried out continuously through the year, and with a sufficiency of funds made up partly by an enhanced Government grant but mainly by contributions from societies in the State according to their working capital or net profits or other recognized basis of computation. The management must be vested in a Board representing all the main types of co-operative activities and interests in the State, and including a few members (not necessarily officials) nominated by Government and connected with important branches of business or industry ...	192
Periodical Conferences.	In addition to the Provincial Co-operative Conference at the Capital, District and Taluk Conferences may also with advantage be held occasionally	192
	It is desirable that the Registrar should at least once a year arrange for a periodical Conference, attended by selected officials of the Department and by non-officials interested in the working of co-operative bodies, for the discussion of important matters connected with the movement	192-193
	Urban institutions should be encouraged and helped to hold special Conferences (either separately or as sections of the Provincial Conference); so also house-building, stores and other special types of societies	193
Study.	Both official and honorary workers should be encouraged to study co-operative developments in other parts of the country ...	193
Powers and duties of Registrar.	The Registrar should control the supply of outside loans and keep a watch over the large sums deposited by the public. The maximum borrowings of all classes of societies and the adoption of the ruling rates of interest should be under his general control. The Registrar must remain responsible for the control of audit until the movement is strong enough to arrange for an independent audit system which will command general confidence. The Registrar should have power to revise an award or order of an arbitrator in order to rectify obvious errors resulting in injustice or hardship	194

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Suggestions are made regarding the qualifications, status and training of officers selected as Registrar, and Deputy and Assistant Registrars 195

Superior Controlling Staff. Having regard to the heavy and growing work of the Registrar's Office, it will be desirable to depute one of the Assistant Registrars exclusively to help the Registrar in that work 195

It will be desirable to have a separate branch of the Department, under the Deputy Registrar, to deal with the agricultural, industrial and other non-credit sides of Co-operation, which have not been sufficiently developed, as well as with the Land Mortgage scheme 196

As it will not be possible for the remaining officers to look after the district work satisfactorily, it will be necessary to increase their number by two, on the view that about 300 societies form an adequate charge for a Divisional Officer ... 196

There may ordinarily be two grades of Assistant Registrars, one on Rs. 150—25/2—250 (the same as for Amildars), and another on Rs. 250-40/2-450 (as for Assistant Commissioners) promotion to which should be by special selection only. The Deputy Registrar may be given the same grade as a Senior Assistant Commissioner, namely, Rs. 500—50/2—600 ... 196

Subordinate Controlling Staff. Men who are markedly inefficient or have no aptitude for co-operative work should be weeded out by retirement or by transfer to other duties. Recruitment should hereafter be confined to graduates, preferably those who have taken up Economics as their subject, and have had training in Book-keeping and Auditing. Selected candidates must undergo training in Co-operative Law, Finance and Practice. Every Inspector should be able to do audit work as part of his duties ... 196

About 35 to 40 societies is the largest number a single Inspector can efficiently attend to. On this basis, it will be necessary to increase the number of Circle Inspectors from 42 to about 55 197

It will be desirable to have, in addition, one Inspector for each Assistant Registrar's charge who will be concerned mainly with liquidation, statutory enquiries, and other special duties entrusted to him 197

Inspectors may be in two grades, one on Rs. 40 rising by annual increments of Rs. 5 to Rs. 75; and another rising from Rs. 80 to Rs. 125 by annual increments of Rs. 5. The number of men in each grade should be so fixed as to allow of a fairly free flow of promotion 197

The stamp of men at present employed as Supervisors is unsatisfactory. Selections should be made from men who have passed a qualifying examination. There should be scope for the appointment of exceptional men among Supervisors as Inspectors. 197

Co-ordination between Departments. Co-ordination between the Departments of Co-operation, Agriculture and Industries is absolutely essential if the full benefits of the activities of these Departments are to be available ...

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Expert Advice. Substantial progress in non-credit forms of co-operation can only be secured if expert advice is liberally given, whether directly by the technical Department concerned, or through the loan of technical officers to the Co-operative Department ... 198

Support and sympathy of District Officers. The active support and sympathy of local revenue officers will be more largely secured by their being given a place on local associations or branches of the Provincial Co-operative Institute 199

Non-official opinion. No important change of policy should be embarked upon without consultation with responsible non-official opinion. As one means of making such opinion always available when required, the Committee supports the suggestion made for the formation of an Advisory Committee—at first wholly nominated —consisting of representatives of different types of co-operative activity, of banking and commercial business, and of law. Such a Committee should be of special help in connection with the framing and alteration of rules, by-laws and forms of accounts.... 199

Increased representation to the Co-operative movement. The proposal that representation on the Legislative Council and increased representation on the Representative Assembly should be given to the co-operative movement is commended for favourable consideration 199

Participation by Government servants. The restriction recently imposed, by which Government officers and officials are required to obtain the previous sanction of Government (through their Departmental Heads) before even standing for election or re-election to committees of Central and urban societies, may be removed and the earlier rule reverted to... 200

Acknowledgments. In concluding this Report, the Committee wishes to express its sincere obligations to the ladies and gentlemen who came forward as witnesses to give evidence, and to the several institutions and individuals who furnished written replies and memoranda of opinion.

Grateful acknowledgments are due to the Government Secretariat and to the Registrar's office for the readiness with which reference files, figures and other information required were made available, and to the Government Press for the neatness and expedition with which it executed all work sent on behalf of the Committee. Apart from Mr. Mehkri's membership of the Committee, his co-operation as Registrar contributed not a little to the

efficacy of the arrangements for the Committee's tours and conferences.

Finally, the Committee desires to record its cordial appreciation of the services rendered by the Secretary, Mr. N. Madhava Rao, during the whole period of the Committee's work, as also its recognition of the efficient manner in which the members of the staff have discharged their duties.

K. S. CHANDRASEKHARA AIYAR,
Chairman, 13th July 1936.

A. V. RAMANATHAN,
13th July 1936.

R. RANGA RAO,
subject to a Note.

N. SESHASASTRI,
subject to Note of dissent.

A. KRISHNA RAO,
subject to Note of dissent.

E. N. NATESAN,
13th July 1936.

J. M. IMAM.

M. G. MEHKRI.

C. S. R. RAO.

K. CHENGALARAYA REDDY.

N. MADHAVA RAO,
Secretary.

NOTE OF DISSENT.

Powers and Responsibilities of Committees.

While we agree with the recommendation and are in general agreement with the observations made in the Report regarding this subject, we wish to state our views clearly and definitely. That the general body of a Co-operative Society is the supreme authority and that its committee of management should not be placed beyond its control are propositions which we fully endorse. The general body of a Society, especially of one with a large membership, should lay down the policy, from time to time, and leave every kind of executive duty for carrying out that policy to the committee of management. This is absolutely essential for a healthy and proper working of a co-operative institution; and hence, as stated in the recommendation, the by-laws should be quite clear and definite as regards the allocation of functions between the general body and the committee of management. The point raised by many of the witnesses that were examined was the extent to which the general body can interfere with and revise the actions of the managing committee under the powers conferred on them by the by-laws. If the by-laws, while conferring a certain power on the committee, reserved to the general body the power of revising the action of the committee when it exercised that power, there is no difficulty at all. The difficulty arises, as pointed out by some witnesses, in cases where the general body wants to revise and set aside the acts of the committee of management done in exercise of the powers conferred on the committee by the by-laws and where the general body has not reserved for itself the power of revising such acts in the by-laws. The majority of the members of this committee are of opinion that the general body, as the supreme authority, has got the inherent power to revise the actions of the committee of management and there need be no such reservation in the by-laws. We are unable to agree to this position. When it is said that the general body is supreme in all matters affecting the administration of the Society, it can only mean that it is *supreme under the Law* (Wolff's Peoples' Bank, page 208). Since the by-laws of a Society are as much law as the Regulation and the Rules framed thereunder, they are no less binding on the general body than on the committee of management. The general body

cannot claim to be above its own by-laws. If the general body has got the inherent power to interfere with the actions of the committee done in the exercise of the powers conferred by the by-laws, then the allocation of functions in the by-laws, instead of being quite clear and definite in these respects, will be vague and indefinite with the consequence that it destroys the sense of responsibility of the management and the managing committee would only function to the minimum extent possible, thereby depriving the institution of the full benefit of the services of the committee. It is not right to say that when the general body has not specifically reserved for itself the power of revision over the actions of the managing committte it possesses an inherent power of such revision even in cases where such actions are sanctioned by the by-laws. Whenever the general body feels that any power conferred on the managing committee is not properly exercised by that committee, the proper course for the general body is to dismiss that committee and instal a new committee who would carry out their wishes or to amend the by-law withdrawing that power, or reserving for itself the power of revision. In this view we are supported by no less an authority than Thomas Hughes and Edward Vansittart Neale who in their work "Foundations: A study in the Ethics and Economics of the Co-operative Movement," p. 112 have stated: "Another matter bearing on the internal management of Societies deserves notice, because very incorrect ideas often prevail about it. This is the powers of general meetings, more particularly of special meetings. It seems often to be supposed that the resolutions of such a meeting override the decision of the committee of management on matters expressly assigned to them by the rules without any reservation to the members of a revising power. But this is a complete mistake. The rules bind all the members, and the acts of any officers of the Society under the powers given them by the rules have the force of the rules, and can be set aside only in a way consistent with them. Where the rules are silent, a Society, as a body corporate, has power to bind its members by resolutions passed at a meeting properly convened until some other meeting similarly authorised rescinds or varies them."

Qualifications for Membership of Committees.

It is urged by some that in order to become a member of the committee of management in a co-operative Society,

persons should have some tangible stake in the institution, *e.g.*, holding of a certain number of shares or of a fixed deposit, to ensure that members so elected will act with a greater sense of responsibility, than one without such stake. On the other hand, it is stated by others that co-operative institutions, being democratic in their nature, should not impose any restriction on any member to be elected to the managing committee, however small may be the material stake he has in the institution. This problem does not arise in primary rural Societies where the liability of members is unlimited and as such the stake of any member of such Society is the same as the stake of any other. The question becomes of importance in Societies where the liability of the members is limited and such Societies are mostly urban institutions. In these institutions mutual knowledge of members not being essential, the number of members are usually large who belong to many classes occupying different stations in life and differing widely in culture and outlook. These institutions mainly depend for their finance on large local deposits which can only be secured if the investing public have got the confidence that the management is in the hands of a truly responsible body of men with sufficient stake in the business. Everybody admits that the management should be in the hands of honest and capable men who feel a sense of responsibility and who are imbued with co-operative principles and have adequate training and experience. In a large institution with a large number of members, a selection will have naturally to be made to manage the affairs of the institution from among those who have got the above capacity; and it is not possible to entrust the management to a small body of men in turn every year, irrespective of their capacity and character, on the sole ground of membership and on the principle that every member should have his turn in the managment. It is not so much a question of prescribing a qualification but it is more a question of prescribing a disqualification so as to exclude men who have not the necessary capacity; this implies a selection and the difficulty arises in determining who has got that capacity and who has not. If the electorate is sufficiently intelligent and educated and acts with a full sense of responsibility there is absolutely no difficulty, since the choice will be made with discernment. But experience of elections in the cities has been to the contrary. The turmoil of keenly contested elections to the committee. of

management of these institutions which has now become a regular feature and some of the practices which are unfortunately becoming current at most of these elections are not bringing in proper men to manage these institutions. Hence it becomes necessary to impose some restriction to prevent unqualified persons from entering the managing committees. It becomes necessary, therefore, to prescribe some qualification which would assess a man's stake in the Society. The easiest form to do this is to prescribe a minimum share or deposit qualification. This would not be against co-operative principles, as holding less than a specified number of shares is recognised as one of the disqualifications to be a member of the committee (Calvert's "The Law and Principles of Co-operation" Third Edition, page 185). Moreover, these urban institutions are not really co-operative as observed by the Maclagan Committee and are more in the nature of joint-stock banks as observed by the Townsend Committee, and their co-operative character consists not with regard to managment but in the manner of the distribution of the profits as observed by Professor H. L. Kaji in the introduction to the work "Co-operation in Bombay." The prescribing of a share qualification is stated in the Report as pandering to the unhealthy desire for high dividends and concentrating power virtually in the hands of a small capitalist clique. We cannot agree with this view. The Regulation itself prescribes the maximum interest which a member can have in the share capital of a Society and also limits the vote of a member to one irrespective of the number of shares he holds, and the Rules fix the maximum rate of dividend that can be declared by a co-operative institution. Under the present Regulation and Rules thereunder the maximum amount of dividend which a committee member can hope to get is rupees seventy-five per annum. Besides, it is not the managing committee but the share-holders assembled at a general meeting who fix the rate of dividend payable on shares. This is surely not an inducement for a capitalist to work all the year through as an honorary worker without any other material advantage. We are of opinion that business efficiency demands that the members of the committee of management shall have some stake in the institution and as such we recommend the adoption of a rule in the case of urban Societies similar to the following rule prescribed for Central Banks in Madras: "An individual member shall not be eligible as a member of the committee of a financing

bank unless he holds such number of shares or has invested in fixed deposits in such Bank such amount, as may be fixed by the Registrar from time to time in consultation with the Committee of such Bank."

Restriction of the Number of Members in Urban Banks.

The majority of the members of the committee are of opinion that in some of the urban banks the membership is excessive at present and they recommend that it must be restricted to 1,500 or with the special permission of the Registrar to 2,000. But a similar recommendation is not made as regards stores Societies which are at present working mainly in the cities with large membership. We are in complete agreement with the opinion of the majority as regards stores Societies. But we are unable to follow the reasons given for proposing this restriction in the case of urban Banks. It is stated in the Report that the consequence of this excessive membership has been " that the management is unwieldy and the interests of members are not properly looked after." Such a complaint has not come to our notice either in the course of the enquiry or otherwise. The management of an urban Bank is not so complicated and difficult as that of a large stores Society. When there is no need to restrict the membership of a large stores Society, we fail to see the reason for restricting the membership in urban Banks. The Mysore Co-operative Committee of 1921 (Samaldas Committee) in their report recommended that the membership of urban Banks should not exceed 300 and the Government accepted that recommendation. Notwithstanding the orders of the Government, urban Banks were allowed to take in more members and the department actually encouraged this course with the consequence that almost all the urban Banks have now a membership from 300 to 3,000. As stated in the Administration Report for 1934-35 " the majority of these Societies are well formed and well worked." In our Report also it is stated that " the urban banking movement has taken deep root and is generally developing on proper lines." If in any particular urban Bank the interests of its members are not properly looked after on account of its unwieldy membership, the remedy lies in introducing suitable methods to make the management of that Bank more efficient.

One of the cardinal principles of Co-operation is the principle of unrestricted membership. The practice of

not admitting new persons to well-established institutions is condemned as unco-operative by such well-known authorities on Co-operation as Henry Wolff. It is suggested that the people may establish new Banks to get the services they want, but it is not very easy to start new organisations and develop them so as to provide the members with all the credit needs that a well established old institution can supply. Anders Orne, the great Sweedish co-operator, in his book on "Co-operative Ideals and Problems," says "To try to meet the needs of a big city by means of a net of small Societies, with local and very limited spheres of activity, is in these times simple folly."

Bombay Presidency which, as recognised by all, has very successfully developed the urban banking movement has not placed any restriction on the number of members to be admitted to urban Banks, a few of which have a membership of more than 10,000. The Townsend Committee of Madras has reported that there is no necessity to restrict the number of members and observe "As indicated above however we think that the business of these Banks is more technical than personal, and that mutual knowledge among members is of little consequence when the liability is limited. Technical knowledge is best obtained when adequate payment is made for it, and the larger the Bank is, the larger are the funds available for such payment." Our urban Banks have developed and have been working on the lines of the Peoples' Banks in Europe. The latter have not placed any restriction of the kind now proposed but on the other hand many of them are working successfully with members exceeding 10,000.

An unwieldy membership will make, no doubt, the meetings of the general body more disorderly and less effective to control the executive. But even a membership of 1,500 is too unwieldy to enable each one of the share-holders to make his voice felt in the meeting. This is a difficulty which applies equally to large stores Societies whose membership is not proposed to be restricted. The remedy lies, therefore, not in curtailing the number of members but in changing the constitution of such Societies. This problem has been solved by co-operators in Europe and Japan by the introduction of what is called the representative system. Under this system, the members of a Society are grouped into different wards and each ward elects its own representatives who together with

the similar representatives of other wards constitute the general body of members for the general meeting of the Society. It is unnecessary for our present purposes to describe in detail the system referred to above, and the details can be got by reference to Digby's "Digest of Co-operative Law," and many works of well-known authors like Mr. and Mrs. Sydney Webb, Anders Orne, etc. We would recommend the amendment of the Co-operative Regulation to enable large societies to adopt such a system.

Appropriation of Amounts Realised under Decrees.

The majority of the members have recommended that in cases where payments are received by a Society from a person towards the dues on a decree, all such payments must be credited first towards the principal amount due, and after the principal amount has thus been fully recovered the balance remaining should be appropriated towards the interest due. We are unable to agree to this recommendation as it is against both the existing law and the principles of equity. According to present law, whenever a part payment is made towards a decree debt, the decree-holder has got the right to appropriate out of the amount so paid a sum sufficient to cover the accrued interest if interest is allowed in the decree, and the balance if any towards the principal. By compelling the decree-holder to appropriate the part payments made towards the principal amount, though interest has accrued till the date of the part-payment, the decree-holder will be put to further loss, because the amount of future interest will have to be calculated on a lesser sum of the principal than what it would be if the appropriation was made according to law. This is showing an undue advantage to a person who has defaulted and who has been removed from membership, while a person who remains a member and makes regular payments is denied this privilege, which is unfair to members who pay regularly their dues. It is not very uncommon for judgment debtors to spread the payment of their decree dues over a number of years. If what is paid in instalments should be appropriated towards the principal amount first and the payments made in later years towards the interest due, then the Society will have to show as profit the amount of interest recovered only in the year when the last payment was made and when no principal amount was due and take

that amount for distribution as dividend for the benefit of such members who are members of the Society in that year and not among those who might have ceased to be members. This is very unfair as regards the latter class of members who would have probably got the greater part of the benefit in such year if the payments made had been appropriated during that year first towards accrued interest and the balance towards the principal.

A. KRISHNA RAO,

N. SESHASASTRI.

NOTE.

The note on page 174 gives a brief summary of my views in the matter of the disposal of co-operative disputes. As my views differ vitally from the other members of the Committee I may be permitted to explain my position a little.

The present system of dealing with co-operative litigation was one of the several concessions granted to the Co-operative Movement when it was introduced into the State and was designed to promote the needs of a movement still in its infancy. It depends for its success upon several conditions. For instance, it requires that the number of Societies should be few, that members should be carefully selected, that loans should be granted after careful scrutiny and that suits should be filed only after friendly methods of recovery have failed. One may suppose that these conditions did obtain in the past but they do not obtain now. Societies have increased in large numbers. We have had evidence that membership is all but automatic, that loans can be had for the mere asking and that friendly methods of recovery are totally absent. This has naturally resulted in a large increase in the number of suits. In fact the very features which made for the success of the present system at an earlier period detract from its value under present conditions. Societies know that in filing suits they have to incur next to no expenditure, have no complicated points of law to answer and no hostile examination to go through. Briefly, the position is that while the defendant is sure that his case is in the hands of an impartial judge, the Society knows that they have a friendly judge in him. Let me add that in practically all cases, the plaintiff is a Society and the defendant is a member.

From the point of view of the department also, I think the present position is unsatisfactory. A co-operative officer has to go into the midst of members of the Societies in his charge freely, educate them, persuade them, teach them as it will be of great help to him in his duties of propaganda, supervision, audit, organization and the like. In other words, he has to mix with them in a friendly capacity. But under present circumstances he is asked to neglect his legitimate duties and to appear among them in the harsh character of a judge and go into questions of law for which he may or may not be fit. It

would be no surprise therefore if in some cases the proceedings before him were unduly slack, hasty and summary.

For these reasons, I venture to think that the time has arrived for relieving the Co-operative Department of the duty of attending to the disputes of co-operative Societies and for referring them to the Civil Courts. But I realise that such a change would be too drastic in character and I would therefore suggest a compromise. I would for the present suggest that judicial officers of the grade of Munsiffs be posted to work under the Registrar. They will be entrusted solely and exclusively with the settlement of co-operative disputes. All other conditions will remain intact. The only change would be that instead of a departmental officer, the judge will be a judicial officer.

A possible objection is that the cost of administering the Department may increase. I would not attach too much importance to this objection. But as a matter of fact I do not think expenditure will increase. The number of Assistant Registrars now is inadequate to cope with the work expected of them and has to be increased. My suggestion is that instead of adding to the number of Assistant Registrars a couple of judicial officers may be added to the Department. The time of the Assistant Registrars set free by their being divested of judicial work will enable the Assistant Registrars to cope with their work satisfactorily. This suggestion, if given effect to, will besides preserving the features of simplicity, economy and promptness which characterise the present system, invest these proceedings with the atmosphere of dignity and seriousness characteristic of judicial proceedings.

R. RANGA RAO.

APPENDIX I.

QUESTIONNAIRE.

MEMORANDUM.

This Committee was appointed by the Government of Mysore on 29th October 1935, for the purpose of enquiring into the present state of the Co-operative Movement in Mysore in its various forms, with reference not only to co-operative credit but also to co-operative production, distribution and sale, as well as to house building, insurance and other relatively less developed fields of co-operative activity. Among matters that will engage the attention of the Committee, the investigation of the financial system generally, including the connection between the various parts of the co-operative organization and the working and future development of Land Mortgage Banks, will occupy an important place. The instructions to the Committee include also an enquiry into the most appropriate methods of promoting efficiency and convenience in such matters as propaganda, supervision, control and management of institutions and the disposal of co-operative disputes.

In order to facilitate the enquiry as well as to give a full opportunity to all persons interested to place before the Committee their considered views and suggestions, a detailed set of questions arranged under various heads, has been drawn up, and the same is published for general information. There are several questions of general interest dealing with matters such as may be within the knowledge or experience of a large number of persons who are not immediately or directly connected with the day-to-day working of particular types of societies, and at the same time some questions are of a technical nature which only those actually engaged in the administration of societies can be in a position to deal with. It is not expected, therefore, that all persons will be inclined to take up all the questions, nor on the other hand is it the intention to limit the expression of opinions and suggestions to only those points which are covered by the questionnaire. The Committee will welcome all expressions of views on any matter within the scope of the enquiry whether included in the questionnaire or not.

It is particularly requested that answers may be furnished as soon as possible, and not later than the 1st January 1936* to the address of the Secretary to the Committee on Co-operation in Mysore, Public Offices, Bangalore.

Copies of the questionnaire may be had on application to that officer.

BANGALORE,
Dated 21st Nov. 1935.

K. S. CHANDRASEKHARA AIYAR,
Chairman.

* Subsequently extended to 15th January.

NOTE.—In replying to the questionnaire it is requested that the following particulars also may be furnished along with the replies :—

1. Name of the person answering.....
2. Age.....
3. Occupation.....
4. Residence.....
5. Caste and Community.....
6. Particulars, if any, bearing on special knowledge or experience regarding the subject.....

QUESTIONNAIRE.

I. General.

1. Is the Co-operative movement in Mysore advancing on sound and efficient lines? What, in your opinion, are its principal defects and what are the appropriate remedies?

2. To what extent has the movement resulted in reducing the general level of indebtedness, the prevalent rate of interest and civil litigation? In what other ways has it materially benefited the members of societies?

3. Has the movement improved the moral and educational standards of the members of societies and promoted habits of thrift and economy?

4. Is there any complaint that the economic condition of the members has deteriorated as a result of facile credit? If so, is it based on facts?

5. What steps do you think should be taken to encourage the growth of the co-operative movement by—

(i) Government;
(ii) Non-official agencies.

6. Do you think that the concessions and privileges now granted by Government to the co-operative movement sufficient? If not what further concessions are needed?

7. What steps or precautions are necessary to prevent misappropriation of funds in societies and banks? To what extent are such wrongful practices prevalent among the societies?

8. How far is it desirable or possible for co-operative societies to undertake

(i) the conciliation of debts due by members to outside creditors, and

(ii) the discharge of debts conciliated in the above manner?

What legal or other facilities are required to enable them to do so?

9. Are there any purely communal societies in the State? How are they working? Are you in favour of communal societies being organized for the general advancement of particular communities or for specific purposes?

10. How far may the funds of societies be expended for charitable or philanthropic purposes?

11. To what extent are women taking part in the development of co-operation in the State, and is there scope for their playing a more important part in it than now?

12. Is there a need for separate societies for women, and what should the functions of such societies be in your opinion?

13. Are women admitted as members of societies freely, and are they taking equal advantage with men in the matter of loans and investments? Do you recommend any special concessions or restrictions in the matter of their admission as members of societies and for their election to Committees?

14. What is the attitude of money-lenders as a class to the movement? Is it one of hostility? Do you think that it is changing or likely to change? In what way can the movement secure the co-operation of money-lenders?

15. Do you recommend any special legislation for the protection of borrowers from unscrupulous practices on the part of professional money-lenders both in the urban and in rural areas?

16. Do you consider that the model bye-laws of societies and banks stand in need of any changes? If so, what modifications would you suggest?

17. What changes, if any, are necessary in the rules to minimise disputes arising with regard to the validity of elections in societies and banks? What steps should be taken to facilitate a satisfactory disposal of such disputes?

II. Primary Credit Societies.

1. Are you of the opinion that the operations of a primary society should be limited to a particular area, say, a village? (At present a society extends its operation over 5 villages on the average.)

2. Do you consider the number of societies operating in any area at present excessive? If so, is it desirable to reduce their number by cancellation or amalgamation with other societies?

3. Do members understand the principles of co-operation and realise their responsibilities as members of unlimited liability societies?

4. Has the unlimited liability basis prevented many people from joining societies? Has it to any extent stood in the way of societies getting loans from outside?

5. Is it desirable that proposed societies should, before registration, be asked to work on probation for a fixed period?

6. Do the Committees understand and discharge their responsibilities in the management of societies?

7. (*a*) Is it desirable to pay honoraria to Presidents, Secretaries or Committee members? If so, on what basis?

(*b*) Will it improve the working of primary societies if paid Secretaries are entertained either for a particular society or a group of societies?

8. Are there any instances of the office of President, Secretary or Committee member being unduly appropriated by the same persons for long periods; and if so, has it worked to the disadvantage of the societies? What safeguards would you suggest to prevent this?

9. Do these societies secure to their members adequate provision for short-term loans? Do members still go to the local money-lenders and if so, what remedy would you suggest for this?

10. Do these societies provide adequate funds for the grant of long-term loans also?

11. Does the practice prevail to any large extent of members borrowing from private money-lenders for repaying to societies, only to borrow again from societies to repay to the money-lenders?

12. Are you in favour of a member of a credit society being permitted to join any other credit society, limited or unlimited?

13. If a person is a member both of a credit society and of a Land Mortgage Society operating in the same area, what arrangements

are necessary so that the interests of one society do not clash with those of the other?

14. Are you in favour of the introduction of a system of compulsory deposits in primary societies in addition to share payment? If so, how would you want such funds to be utilised?

15. To what extent, and subject to what safeguards, may agricultural primary societies be permitted to accept short-term fixed deposits and savings deposits, and to open current accounts?

16. Do you think that co-operative societies can be freely employed as agencies for the grant of Taccavi and Land Improvement loans to agriculturists? Are there any legal difficulties, and if so, what procedure would you suggest to meet them?

17. What is the composition of the working capital of your society? Give the figures under shares, deposits and loans, and their proportion to working capital? Is the proportion, in your opinion, satisfactory?

18. Is it, in your opinion, necessary for the agricultural societies to confine themselves to the grant of short-term loans for cultivation purposes?

19. Can the societies be made to work a system of loans against crops?

20. Is it desirable, in order to avoid delays, to revise the present system of granting loans to members or replace the same by a system of normal credits operated according to needs from time to time?

21. Is the system of fixing maximum loans to members in proportion to the number of shares satisfactory? If not, on what basis should it be done and by whom?

22. Are loans granted by Committees after careful consideration, with particular regard to amount, terms, periods of loan, repaying capacity of members and the most convenient season for repayment?

23. Do Committees verify the *bona fides* of the purposes for which the loans are required? Are loans always granted for useful purposes?

24. What do you think of the present practice of issuing loans for what are called "necessary purposes"?

25. What means have Committees of satisfying themselves that loans sanctioned have been properly applied? Are there any instances in which amounts misapplied or obtained on false pretences are recalled?

26. To what extent, if any, are *benami* loans granted?

27. For what purposes are long-term loans generally taken and utilized?

28. Are there any instances of loans being issued to the same persons who mutually stand surety to one another?

29. Are there instances of loans not really being repaid but shown as repaid and reissued? If so, what remedies do you suggest to prevent the practice?

30. What is the provision, if any, made in the matter of bad debts?

31. Do you advise the system of disbursing dividends after a fixed period or of carrying them into an indivisible reserve?

32. How should the reserve funds of societies be invested? And if they are used as part of working capital, how are the profits earned thereon to be dealt with?

33. What specific suggestions have you for reducing the growth of overdues from members to societies and from societies to financing

institutions? Are you in favour of classifying overdues as authorised and unauthorised as is done in Bombay?

34. Is it desirable or feasible to make any special experiments in the matter of controlled Productive Credit for raiyats, as is done in the Salem District of the Madras Presidency?

III. Urban Banks and Societies.

1. What part can an urban bank advantageously play in the development of non-credit activities?

2. Would you have the urban banks as mere money-lending institutions, or would you like to use them for purposes of developing banking habits for the benefit of co-operators; and if the latter, how would you propose to attain the object?

3. In order to attract all available capital in an urban area and without detriment to the efficiency and expansion of the movement, which is more advantageous,—to have one urban bank for the whole urban area, or to have one independent credit society for each ward of an urban area?

4. If you are for a single bank for a whole urban area, should it work by opening up of branches or formation of sub-committees?

5. Is it necessary to restrict the number of urban societies of the same kind operating in the same area? What provisions are necessary to eliminate competition among them?

6. Should there be a limit to the number of members to be admitted to each society and urban bank?

7. What qualifications or restrictions would you fix for a member to become eligible for election as a Director?

8. Do you think that it is necessary to define in the By-laws the respective powers of the Board of Directors and the General Body? If so, what are the powers that should be delegated to the Board of Directors generally to ensure efficient management?

9. Having regard to the difficulty of general supervision and control being exercised by an unwieldy general body of an urban bank, what methods do you recommend for securing to them an effective voice without sacrifice of administrative efficiency?

10. Is there any necessity for the establishment of Boards of Supervision in the case of urban banks? If so, what should be the function of such supervising boards?

11. Does the rule requiring previous sanction of Government being obtained for Government officials standing for election to the directorate of societies work to the disadvantage of societies? Does the rule deprive societies of the services of enthusiastic co-operators to any appreciable extent?

12. With respect to urban banks having a large working capital do you think that part-time and honorary service of members is sufficient to secure efficient management or that a full-time and adequately paid staff is necessary?

13. In particular, do you favour the idea of paid Secretaries, with no seat on the Directorate?

IV. Non-Credit Societies.

1. What steps do you recommend to facilitate the development of non-credit societies of various types? Please state to what type of society you refer?

2. In what directions may agricultural non-credit co-operative societies be developed in the near future? Is there any scope or demand for developing such types of societies?

3. Is it desirable or possible for co-operative societies to undertake rural welfare or reconstruction schemes? How is the cost of such undertakings to be met? Would you advocate the formation of separate societies to undertake the work; if so, on what lines?

4. Have you any observations to make regarding the starting, improving or extending the scope of the activities of the following kinds of co-operative societies:—

(i) Purchase societies;
(ii) Societies for the sale of produce or stock;
(iii) Societies for effecting improvements, *e.g.*, the digging of wells and the construction of bunds, walls and fences or the planting of hedges;
(iv) Societies for the aggregation of fragmented holdings and their distribution in plots of reasonable size;
(v) Societies for the co-operative use of agricultural machinery;
(vi) Societies for joint farming;
(vii) Cattle breeding societies;
(viii) Societies for the purchase and sale of manure, seed, implements, yarn etc.;
(ix) Societies for the marketing of agricultural and industrial products, such as eggs, honey, baskets, mats, etc.;
(x) Societies for common irrigation or common cultivation, common ownership of plant and machinery, etc.;
(xi) Distributive societies or stores;
(xii) House Building Societies;
(xiii) Grain Banks;
(xiv) Societies for any purpose connected with agriculture or with the betterment of village life, or with economic improvement of members, but not specified above;
(xv) Co-operative Insurance Societies.

5. Where co-operative schemes for joint improvement, such as co-operative irrigation or co-operative fencing or co-operative consolidation of holdings, cannot be given effect to owing to the unwillingness of a small minority to join, do you think legislation should be introduced in order to compel such persons to join for the common benefit of all?

6. Are there any special industries in your locality which are capable of being developed on co-operative lines with or without State aid?

7. To what extent and in what direction should credit societies undertake non-credit activities? Are any steps necessary to develop these activities?

8. Is it desirable to have a separate branch of the Departmental staff to deal with non-credit societies?

9. Does the management of non-credit societies require methods or arrangements different from those obtaining in the case of credit societies?

10. (i) Have you any criticisms or suggestions to offer regarding the working of co-operative stores in the State? (ii) Should sales be made on cash terms or may credit also be allowed; and if so, for what period and up to what limits? (iii) Should sales be confined to

members or extended to non-members also? (iv) Is a system of rebates to members advisable?

11. (i) Is it practicable at present for Stores Societies to undertake the production of the articles of consumption in which they deal, and if so, what are the articles that they would be able to produce? (ii) Can the various Stores Societies federate for the purpose?

12. Is it possible to directly link producers with consumers' societies? In respect of what commodities particularly is this arrangement possible?

13. How are the sale prices to be fixed in Stores societies? Should it be in accordance with the prevailing market rates or on a fixed rate basis?

14. Are there any special difficulties in the management of Stores? If so, what remedies would you suggest?

15. What do you think of a Central Store taking up the work of purchasing goods on behalf of primary Stores? Can an indent system of purchase which has been found successful in some places, be successfully worked in Mysore?

Cattle Breeding and Dairying Societies.

16. Do you consider that there is real need at present for cattle breeding, dairying and cattle insurance societies? What special facilities are required for their working and development?

House Building Societies.

17. To what extent are House Building Societies a real necessity? What are their special difficulties, if any, and what special facilities are required for their proper development either from Government or other sources?

18. Can the present system of granting house building advances by Government to employees be entrusted to the House Building Societies, in particular areas at least?

19. What is your opinion regarding the formation of a Central Housing Society, for the whole State to which all the House Building Societies may be affiliated?

20. What system would you recommend for such Societies,—the ownership, co-partnership or tenancy system? Is it possible for the House Building Societies to take up the wholesale purchase, manufacture or supply of house building materials as also to undertake the business of constructing houses?

Depressed Class Societies.

21. Have you any experience of the working of depressed class Societies? Are they working satisfactorily? If not, what are the reasons for their failure?

22. Should separate societies be organized and maintained for the depressed classes, or do you consider that the members belonging to these classes should be admitted into general societies?

23. Are these societies in need of any special facilities in regard to management, funds, inspection, etc.?

GRAIN BANKS.

24. Are you acquainted with the working of any Grain Bank? To what causes would you attribute their present unsatisfactory position?

INDUSTRIAL SOCIETIES.

25. To what extent and in what directions may the co-operative movement be utilized for the development of cottage industries? What kinds of cottage industries do you think are most suitable for the purpose?

WEAVERS' SOCIETIES.

26. For what reasons have the purchase and sale societies for weavers proved comparatively unsuccessful? What special measures would you suggest to improve them and to assist the weaving industry generally? Is any concession from Government or from the Department of Government necessary to strengthen the position of these societies?

CO-OPERATIVE INSURANCE.

27. Is there any need to organize a system of Co-operative Insurance in the State as a measure to promote thrift? On what lines should it be worked? How is the working capital to be raised?

BETTER LIVING SOCIETIES.

28. Is there any scope for the formation of Better Living Societies in Mysore?

EMPLOYEES' SOCIETIES.

(*Government, Railways and Wage-earners.*)

29. (1) How far have Employees' Societies succeeded in relieving the indebtedness of members and prevented their resorting to private money-lenders? Are the members getting the full benefit of facilities made available to them by the Societies and exercising their full rights as members in the management of their Societies?

(2) Have you (as the head of an office or otherwise) any suggestions to make regarding the present procedure in regard to attachment of the pay of employees? Are the number of such attachments decreasing or increasing?

(3) Are you in favour of promoting special Provident Fund, Thrift or Compulsory Insurance schemes through Co-operative agencies?

V. Central Financing Institutions.

1. Have you any criticisms to offer on the present constitution and management of Central financing institutions?

2. Is it necessary to have Central Banks to finance the primary societies directly, or would it be better to leave the work of financing all the societies in the State in the hands of the Provincial Apex Bank through its own local branches? If so, will one Central Bank suffice for the whole State, or is it necessary to have one Central Bank for each district or group of districts?

3. Should the Provincial and Central Banks have the power to borrow for longer terms by issue of debentures, or should this business be left to the Land Mortgage Banks ?

4. Are you in favour of the Provincial and Central Banks establishing branches in districts and taluks ?

5. What area or number of societies can a Central Bank most effectively serve?

6. Are you in favour of the elimination of individual share-holders in the central institutions ?

7. Should the borrowings of primary societies be limited to the amount of share capital held by them? If not, what other limit should be fixed ?

8. Is the practice of granting loans for 10 years or more by central institutions financially unsound ?

9. What proportion of the funds of central institutions should be employed in the grant of long-term loans, and for what periods ?

10. To what extent is uniformity desirable and possible in the rates at which various banks accept deposits ?

11. Is it necessary or desirable for central institutions to further reduce their lending rates ?

12. Do you consider the system of central institutions holding the reserve funds of societies satisfactory ?

13. Are the present arrangements for the maintenance of fluid resources adequate ?

14. Is any distinction made by central institutions in their treatment of societies with limited and unlimited liabilities ?

15. (1) Is it necessary or desirable to permit banks to advance loans to non-member depositors on the security of their deposits? (*Vide* Section 29 of the Co-operative Societies Regulation).

(2) How far is it possible to attain the same object by a condition attached to the acceptance of deposits that a portion of the same may be returned to the depositor at his instance on a reduced scale of interest according to the length of the period already elapsed ?

16. Are there any special agencies employed by the central financing institutions for the collection of arrears ? What special or additional agencies would you suggest ?

17. Is it desirable that the executive management of a central banking institution should vest in a paid Secretary or Manager under the control of the Board of Directors ?

18. Do you think it advisable for primary societies to have direct financial inter-relationship with one another ?

19. How far is it desirable to insist upon every primary society affiliating itself with the central financing institution ?

VI. Land Mortgage Banks and Societies.

1. Have you any suggestions or criticisms to offer regarding the system and working of the Land Mortgage Bank and Societies?

2. Is more than one Land Mortgage Bank necessary in the State ? What is the maximum area over which a Land Mortgage Society can effectively operate ?

3. Have the Land Mortgage Societies been able to afford sufficient relief to indebted persons in the area of their operations ? If not, what are the reasons for the failure ?

4. Should the Land Mortgage Societies grant short-term loans for their current needs to members whose prior debts have been redeemed by them? If so, how are they to be financed for the purpose?

5. With a view to relieve rural indebtedness to a larger extent than now, is it desirable to increase the number of Land Mortgage Societies? If so, how are they to be provided with the finance they will need for their long-term operations?

6. Is the Land Mortgage Bank, in your opinion, the most suitable organization to meet the demand of agriculturists for long-term credit?

7. Is it possible to arrange for the transfer of the existing long-term loans in co-operative Societies to the Land Mortgage Bank?

8. Is it desirable to centralise the issue of debentures for the Land Mortgage Bank and other central co-operative financing institutions in the State?

9. Have you any suggestions to make to induce the general public to buy debentures issued by the Land Mortgage Bank more freely?

10. How should the value of mortgage security be assessed? Should a paid staff be employed? If so, who should pay for it?

11. Are there complaints of undue delay on the part of Land Mortgage Societies in the disposal of loan applications and the disbursement of the amounts after sanction? If so, can you suggest ways in which such delays could be minimised?

12. Should the organization and supervision of Land Mortgage operations be entrusted to a special staff under the Registrar?

VII. Finance and Accounts.

1. Do you consider that the co-operative movement is in a sound financial condition?

2. It is understood that the Apex Bank had to refuse fresh deposits as it had large sums remaining idle in its possession; can you suggest any means of remedying this state of affairs?

3. Are you of the opinion that the policy of using fixed deposits in co-operative societies and banks for financing long-term loans is sound? If so, subject to what conditions and safeguards may such a policy be pursued?

4. The proportion of long-term to short-term loans in Mysore is understood to be about equal. Do you think this to be excessive or to require rectification? If so, what measures would you suggest?

5. Do delays in the disposal of loan applications occur frequently? If so, can they be avoided? Do they deter members from applying for short or long term loans?

6. Is there any reason to think that an undue proportion of loans are monopolized by a comparatively small number of borrowers (say in sums exceeding Rs. 5,000)? What restrictions, if any, would you impose on them?

7. Are the existing rates of interest, ordinary or penal, on loans to members or societies or on deposits made by them, excessive in your opinion, and do they require to be reduced? If so, to what extent?

8. Is there any great disparity between the borrowing and the lending rates?

9. To what extent is the alarming increase of overdues due to economic depression, and to what extent to other causes?

10. Is the increase of overdues such as to affect the proper working of the societies? How far is there a need, in view of the present economic conditions, for the grant of extensions of time or for easing the repayments and reducing or remitting ordinary or penal interest due by members; or should the societies take effective steps against the defaulters as under normal conditions?

11. Do you advise the appointment of a special staff for the recovery of overdues in the Districts where the arrears are very heavy?

12. Has the principle of unlimited liability been applied so that the whole liability on liquidation is unfairly laid on a small minority of the members?

13. Is it desirable for a society ordinarily to take a loan in another society or bank to repay deposits?

14. Have you any suggestions for simplifying the accounts of societies?

VIII. Organization.

1. Are the arrangements obtaining in the State for the organization and formation of societies satisfactory? Do you think they could be improved?

2. Is there necessity at present to organize new societies, and who should organize them? What qualifications should the organizers possess, and what instructions should they give to the Committees and the members of new societies?

3. The Registrar's report shows that the management of some societies is slack and indifferent and of some others wilfully injurious. Have you any suggestions for the re-organization of such societies?

4. Do you consider that the registration of more than one society of the same type in the same area is objectionable? What are the circumstances under which more than one society may be registered? Is it necessary to attach any conditions before they are so registered?

5. When there are more societies of the same type working in an area, how is co-ordination between them to be secured?

IX. Instruction and Propaganda.

1. Are there enough facilities in the State for providing adequate training in co-operative principles and practices for the staff employed by Government and the societies?

2. Is it desirable to have a Central Co-operative School or Institute for providing courses of instruction and training for officials, office bearers and others engaged in co-operative work? On what lines should it be organized and how is the cost to be met?

3. Is the staff now engaged by the Department sufficient to cope with the increased volume of work?

4. Have you any suggestions to offer for making the existing arrangements for propaganda more effective and adequate?

5. Is it desirable to create a special body for dealing with propaganda work?

6. Is the present scale of pay sufficient to attract men of the right type with the requisite qualifications to take up co-operative work after proper training?

X. Audit.

1. Audit is a statutory function of the Registrar. In what cases and to what extent should societies contribute towards the cost of audit?

2. Do you consider that the present arrangements for audit of societies are adequate and satisfactory?

3. How far is it desirable to maintain the present system of official audit? Is it advisable to replace it by a system of non-official audit under a centralized provincial agency like the Provincial Co-operative Institute?

4 Is there any complaint that audit is not fully independent and impartial, and is there a need to give wider legal powers to auditors to enable them to do their work properly?

5. Do the present arrangements for audit allow members, depositors and others having financial interest in societies, to obtain all the information required by them regarding the position of the societies?

6. Does the form in which the balance sheet is now prepared reflect the financial position of societies correctly?

7. Are the present rates of audit fees charged reasonable or excessive? Do they require any modification?

XI. Supervision.

1. Is the supervision of the work of co-operative societies at present adequate and satisfactory? Is there any need for increasing the measure of official control over their working?

2. Can the supervision of societies be handed over partly or wholly to non-official agencies either immediately or gradually?

3. The Registrar's report shows that the position of federal co-operative unions is anything but satisfactory. Is there any way in which they could be revived and made more active and useful?

4. Should central financing institutions inspect and supervise societies financed by them, or is there any other agency to which this work may be entrusted?

5. Is it necessary or desirable to have supervising unions as in Madras and Travancore for the more systematic supervision of primary societies? If so, what functions may be entrusted to them? Should supervision be supplemented or strengthened by any further agency?

6. What is your opinion regarding the provincialization of the supervising staff, and the formation and utilization of a common supervision fund?

XII. Litigation.

1. Do you think that the present arrangements for the settlement of co-operative disputes should continue? If, in your opinion, the time has arrived for a change, what alterations would you suggest?

2. Do you consider that the disposal of co-operative disputes can or may be entrusted to any other agency than the Co-operative Department? If so, what agency would you suggest?

3. What, in your opinion, are the reasons for the increase in the number of institutions of co-operative disputes every year? Is it necessary or desirable to check it, and if so, how should it be done?

4. Is it desirable to make the law of limitation as it stands applicable to co-operative disputes, or would you suggest any alterations ?

5. Can the departmental officers compel the filing of disputes against wilful and persistent defaulters when the management of a society fails or refuses to take such action ?

6. Are co-operative disputes disposed of with reasonable despatch? If not, what steps are necessary to ensure quicker disposals ?

7. Do you favour the establishment of arbitration and executive unions as in the Punjab ? If so, what contribution should the societies make to meet the expenditure ?

8. What is your opinion as to the efficiency of the work of the arbitrators ?

9. Are suitable honorary arbitrators available in sufficient number in the State ?

10. Would you suggest any scale of remuneration for arbitrators, or is it possible to get the work done voluntarily ?

11. What steps should be taken to minimise delays in the execution of co-operative decrees or awards ?

12. Is execution by the Revenue Department prompt and efficient ?

13. Can you suggest measures to minimise the disadvantages incidental to the purchase of defaulters' lands by the creditor banks in execution ?

XIII. Liquidation.

1. Is there at present any undue delay in the conduct and closing of liquidation proceedings ? How may it be minimised ?

2. Is it feasible to entrust liquidation work to non-official agencies ? If so, what remuneration would you recommend to the liquidators ?

3. Are there any desirable alternatives to the compulsory liquidation of societies ?

XIV. Miscellaneous.

1. Are there any provisions in the present Co-operative Regulation or the Rules thereunder which are defective and inadequate for the working of Societies ? If so, can you suggest any amendments ?

2. (i) Do you consider that the relations which exist between the Co-operative Department and other Departments of Government, such as Revenue, Agriculture, Industries, Veterinary, etc., are satisfactory ? If not, can you suggest any means whereby better co-operation with these departments can be ensured ?

(ii) In particular do you think that a Board consisting of the Heads of the Departments of Co-operation, Agriculture and Industries and Commerce would serve a good purpose ?

(iii) Are you in favour of constituting a Provincial Advisory Council, composed of the representatives of the Departments of Industries and Commerce and Agriculture and prominent workers in the co-operative field, to assist the Registrar ?

3. Do you think that the interests of co-operation will be better served by special or additional representation in the Representative

Assembly and Legislative Council? If so, what is the extent of representation and the method of election that you would recommend?

4. To what extent is there scope for the utilization of the services of Government officials on Committees and in other branches of co-operation work?

5. What is your opinion as to the work that is now being done by honorary workers? In what directions may the services of non-officials be increasingly utilised for the development of the movement?

APPENDIX II.

Names of Persons examined by the Committee.

1. BANGALORE DISTRICT.

1. *Rajasabhabhushana Diwan Bahadur* K. R. Srinivasa Iyengar, M.A., Retired Member of Council, and President of the Mysore Land Mortgage Bank, Ltd., Bangalore.
2. *Rajakaryapravina* P. G. D'Souza, B.A., B.L., Retired Member of Council, and President of the Central Co-operative Bank, Ltd., Bangalore.
3. Mr. S. Venkatakrishnaiya, B.A., B.L., President of the Mysore Provincial Co-operative Apex Bank, Bangalore.
4. ,, A. R. Nagesvara Iyer, B.A., B.L., Government Advocate, and President of the Bangalore Housing Society.
5. ,, K. Subba Rao, B.A., LL.B., Deputy Registrar of Co-operative Societies in Mysore.
6. ,, N. Rama Rao, B.A., B.L., Retired Director of Industries and Commerce in Mysore, and Director of the Central Co-operative Bank, Ltd., Bangalore.
7. ,, M. A. Gopalaswami Iyengar, M.A., B.L., Advocate, and Secretary of the Mysore Provincial Co-operative Apex Bank, Ltd., Bangalore.
8. ,, S. Gopalswami, M.A., Secretary of the Central Co-operative Bank, Ltd., Bangalore.
9. ,, M. H. Dastur, Deputy Manager of the Bank of Mysore, Ltd., Bangalore.
10. ,, A. K. Yegnanarayana Iyer, M.A., N.D.D., Retired Director of Agriculture in Mysore.
11. Dr. B. Narasimha Iyengar, B.A., Ph.D., Director of Agriculture in Mysore.
12. Mr. A. N. Raghavachar, M.A., Comptroller to the Government of Mysore.
13. ,, S. Abdul Wajid, B.A., Director of Industries and Commerce in Mysore.
14. *Rajasevaparayana* B. Srinivasa Iyengar, B.A., B.L., Retired Financial Secretary to Government.
15. *Rajacharitavisarada Rao Sahib* C. Hayavadana Rao, B.A., B.L., President of the Bangalore Press Employees, Co-operative Society, Ltd.
16. Mr. K. Shamsudin Khan, B.A., Assistant Superintendent of Sericulture, Chennapatna.
17. ,, S. Narayana Rao, Retired Assistant Commissioner.
18. ,, N. Deva Rao, B.A., Secretary of the Malleswaram Co-operative Society, Ltd.
19. ,, Y. Srinivasiya, B.A., LL.B., Advocate, Mysore.
20. Sri Srirangamma, B.A., Retired Lady Assistant to the Director of Public Instruction in Mysore, and Vice-President of the Malleswaram Co-operative Society, Ltd.
21. Mr. V. S. Subba Rao, Assistant Comptroller.
22. ,, C. G. Ramiya, B.A., Director of the Malleswaram Co-operative Society, Ltd.

23. Mr. K. V. Lakshmana Rao, G.D.A., R.A., Certified Auditor.
24. ,, N. Narasimhachar, Assistant Secretary of the City Co-operative Society, Bangalore.

2. MYSORE DISTRICT.

1. Sri M. Nagu Bai, Secretary of the Mysore Aryabhaginiyara Co-operative Society, Ltd.
2. Mr. C. Narasimhiya, B.A., B.L., Advocate, and President of the Mysore City Co-operative Society, Ltd.
3. ,, P. Sitharamiya, B.A., LL.B., Advocate, and Secretary of the Mysore City Co-operative Bank, Ltd.
4. *Rao Sahib* M. Ramaswami, Member, Representative Assembly.
5. Mr. H. C. Dasappa, B.A , LL.B., Advocate, and Member, Legislative Council.
6. ,, M. Lakshminarayana Rao, B.A., LL.B., Advocate, and President of the Mysore Graduates' Co-operative Society.
7. ,, Sultan Mohiyuddin, Secretary of the City Muslim Co-operative Society.

3. SHIMOGA DISTRICT.

1. Mr. S. Narayana Rao, M.A. (Hons.), Deputy Commissioner.
2. ,, H. Narasimhaiya, B.A., B.L., Advocate, and President of the Shimoga Co-operative Bank, Ltd.
3. ,, B. N. Raghaviah, B.A., B.L., Advocate.
4. ,, T. G. Narayana Iyengar, B.A., B.L., Advocate, and President of the Land Mortgage Society, Ltd., Shimoga.
5. ,, A. Ananthiya, Pleader.
6. ,, H. Srinivasa Rao, B.A., B.L., Advocate, and Vice-President of the Shimoga Co-operative Bank, Ltd.
7. ,, R. K. Jayathirthachar, B.A., B.L., Advocate.
8. ,, Malur Subba Rao, B.A., B.L., Advocate.
9. ,, H. Venkoba Rao, Secretary of the Land Mortgage Society, Ltd., Shimoga.
10. ,, H. Siddaiya, B.A., B.L., Advocate, and Member, Legislative Council.
11. ,, H. Lingappa, B.A., B.L., Advocate, and President, Sri Basaveswara Co-operative Society, Ltd.
12. ,, K. Ramaswamy Setty, Vice-President, Shimoga Municipal Council.
13. ,, Rattehalli Ramappa, Sowcar, and President of the Sri Ganapathi Co-operative Society, Sagar.
14. The Secretary, Gudigar Co-operative Society, Sagar.
15. Nawab Sher Khan of Honnali, Representative Assembly Member.
16. Mr. S. H. Bennur, L. Ag., Assistant Director of Agriculture, Shimoga Division.
17. ,, C. N. Ramachandra Rao, B.A., Assistant Registrar of Co-operative Societies, Shimoga Division.

4. KADUR DISTRICT.

1. Mr. M. Abdul Hukh, B.A., Deputy Commissioner.
2. ,, G. S. Abdul Hameed, Coffee Planter, and Member, Legislative Council.

3. Mr. Kalasa Krishna Rao, B.A., B.L., Advocate, and President of the Land Mortgage Society, Ltd., Chikmagalur.
4. Miss Sorabji, Secretary of the Mahilasamaja Co-operative Society, Chikmagalur.
5. Mr. C. Meppin, Retired District Economic Superintendent.

5. CHITALDRUG DISTRICT.

1. Mr. D. H. Chandrasekharaiya, B.A., LL.B., Advocate, and Member, Legislative Council.
2. „ Khande Rao, President of the Chitaldrug Co-operative Society, Ltd.
3. „ M. S. Surappa, B.A., Assistant Registrar of Co-operative Societies, Tumkur Division.
4. „ Vasudeva Bhatta, Landlord, Maradihalli, Chitaldrug Taluk.

6. KOLAR DISTRICT.

1. Mr. A. A. Khan, B.A., Deputy Commissioner.
2. „ C. B. Gopala Rao, Pleader.
3. „ T. Srinivasa Char, Pleader, and President of the Land Mortgage Society, Ltd., Kolar.

APPENDIX III.

Names of Institutions visited by the Committee.

1. BANGALORE DISTRICT.

1. The Mysore Provincial Co-operative Apex Bank, Ltd.
2. The Mysore Land Mortgage Bank, Ltd., Bangalore.
3. The Bangalore Central Co-operative Bank, Ltd.
4. The Malleswaram Co-operative Society, Ltd.
5. The Malleswaram Co-operative Bank, Ltd.
6. The Co-operative Housing Society, Ltd., Bangalore.
7. The Bangalore City Co-operative Society, Ltd.

2. MYSORE DISTRICT.

1. The Mysore City Co-operative Bank, Ltd.
2. The Mysore City Co-operative Society, Ltd.
3. The Mysore Chamarajpuram Co-operative Stores, Ltd.
4. The Mysore Railways Co-operative Society, Ltd.
5. The Mysore City Adikarnataka Co-operative Society, Unltd.
6. The Mysore City Ramalinga Chowdeswari Weavers' Co-operative Society, Ltd.
7. The Lalitadripur Co-operative Society, Unltd.
8. The Mandya House-building Co-operative Society, Ltd.
9. The Mandya Extension Stores, Ltd.

3. SHIMOGA DISTRICT.

1. The Shimoga Co-operative Bank, Ltd.
2. The Shimoga Land Mortgage Co-operative Society, Ltd.
3. The Shimoga House-building Co-operative Society, Ltd.
4. The Shimoga Arya Vaisya Co-operative Society, Ltd.
5. The Bhadravati Iron Works Co-operative Society, Ltd.

4. KADUR DISTRICT.

1. The Chikmagalur Town Co-operative Society, Ltd.
2. The Chikmagalur Land Mortgage Co-operative Society, Ltd.
3. The Chikmagalur Mahila Samaj Co-operative Society, Ltd.
4. The Hiremagalur Co-operative Society, Unltd.

5. CHITALDRUG DISTRICT.

1. The Chitaldrug Co-operative Society, Ltd.
2. The Chitaldrug Non-Gazetted Officers' Co-operative Society, Ltd.

6. KOLAR DISTRICT.

1. The Kolar Co-operative Society, Ltd.
2. The Chikballapur Co-operative Society, Ltd.
3. The Kolar Sree Kannikaparameswari Co-operative Society, Ltd.
4. The Kolar Hosapetta Adikarnataka Co-operative Society, Unltd.
5. The Chikballapur Fort Adikarnataka Co-operative Society, Unltd.
6. The Chikballapur Sri Balakrishna Co-operative Society, Ltd.

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